A.I.D. Project Impact Evaluation No. 40

Assisting Small Business in Francophone Africa: The Entente Fund African Enterprises Program

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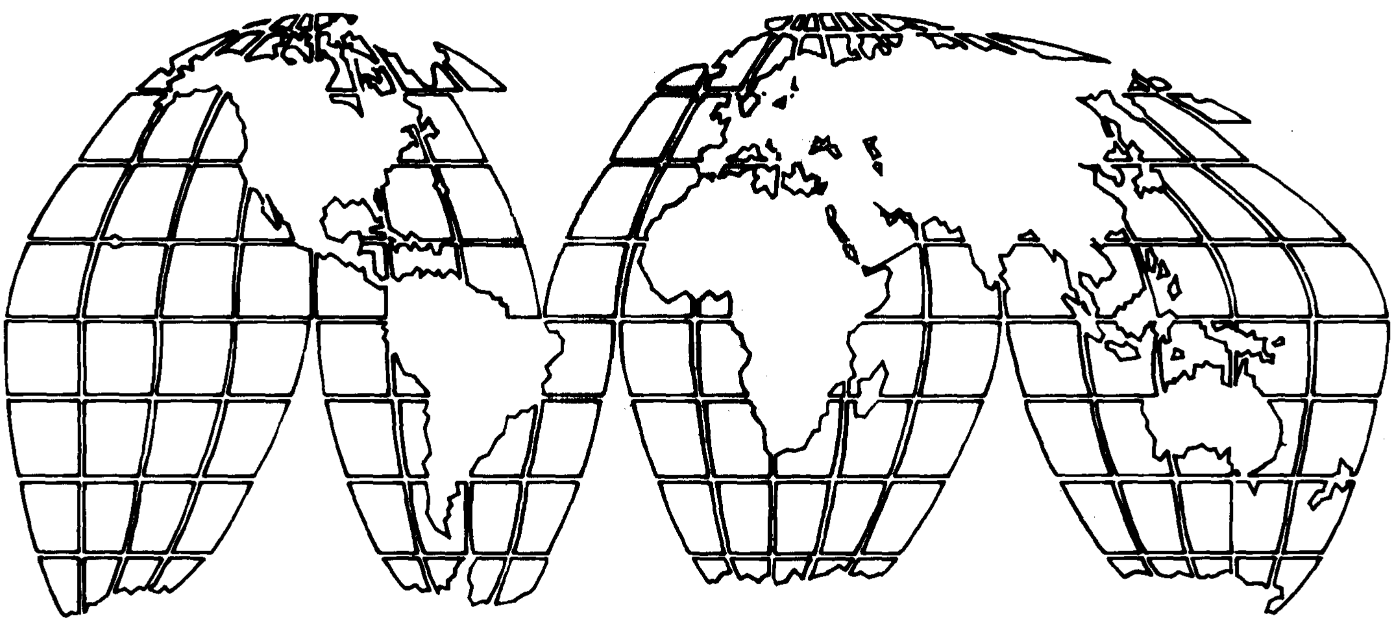

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ASSISTING SMALL BUSINESS IN FRANCOPHONE AFRICA -- THE ENTENTE FUND AFRICAN ENTERPRISES PROGRAM

A.I.D. Project Impact Evaluation No. 40

by

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FOREWORD

In October 1979 the Administrator of the Agency for International Development initiated a series of impact evaluations focusing on the impact of AID-funded projects. These impact evaluations are concentrated in substantive areas of the Agency's overall program. Procedures are followed which ensure that the findings and lessons learned are useful to AID and others in the development community.

This evaluation of the African Enterprises Program of the Entente Fund is particularly important because of the increasing attention being given by AID to the stimulation of and assistance to indigenous businesses in the countries we assist. It is one of several impact evaluations undertaken in the area of private business promotion. The cumulative lessons learned from these evaluations will be used to guide future policy and the design and implementation of projects in this area.

PREFACE

The program to assist small African business through the Entente Fund has been an important component of AID's total assistance effort in French West Africa since 1973. Although outside contractors have commented on it in the past, this is the first comprehensive in-house evaluation done by AID. The program has never been audited by AID.

The evaluation team, composed of nine people, included five from AID/Washington, one contract employee from the United States, two contract employees resident in Abidjan, and one Ivorian recently returned from the United States. The Bureau for Program and Policy Coordination, Office of Evaluation, provided backstop support.

The team members gathered material and interviewed knowledgeable AID, World Bank, and International Monetary Fund (IMF) officials in Washington, then flew to Abidjan and were joined by the other three members. They spent about one week in Abidjan researching and interviewing, then split into two subteams for two weeks of field work. One subteam did field work in Benin and Togo, the other in Niger and Upper Volta. They returned to Abidjan for a final 10 days of research and interviewing, field work in the Ivory Coast itself, briefings, and drafting. A first draft of the total report was prepared and discussions and briefings held with officers of the USAID Regional Economic and Development Service Organization (REDSO) and the Entente Fund. Briefings were held in Washington upon return from Abidjan, and this written report was completed in August 1982.

The methodology used was normal for this kind of evaluation: interviews, research, observation, examination of records and reports, and reading. Unfortunately the available status reports on the program at REDSO, the Entente Fund, and the development banks were not complete and accurate, thus complicating the investigation. A very time-consuming part of the exercise was locating and interviewing a representative sample of the ultimate borrowers, i.e., the African businesspeople and entrepreneurs; our approach to this is described in Appendix B.


MEDITERRANEAN SEA
TUNISIA
MOROCCO
ALGERIA
LIBYA
ARAB REPUBLIC OF EGYPT
RED SEA
FORMER SPANISH SAHARA
MAURITANIA
MALI
NIGER
CHAD
SUDAN
CAPE VERDE
THE GAMBIA
SENGAL
GUINEA-BISSAU
GUINEA
UPPER VOLTA
BENIN
TOGO
IVORY COAST
SIERRA LEONE
LIBERIA
GHANA
NIGERIA
DJIBOUTI
SOMALIA
ETHIOPIA
CENTRAL AFRICAN REPUBLIC
CAMEROON
EQUATORIAL GUINEA
SAO TOME AND PRINCIPE
GABON
PEOPLE'S REP. OF THE CONGO
ZAIRE
RWANDA
BURUNDI
UGANDA
KENYA
TANZANIA
INDIAN OCEAN
ANGOLA
ZAMBIA
MALAWI
ATLANTIC OCEAN
ZIMBABWE
MOZAMBIQUE
MADAGASCAR
NAMIBIA
BOTSWANA
SWAZILAND
LESOTHO
SOUTH AFRICA
Members of Entente Fund

PROGRAM DATA SHEET

Project Title: Entente Fund--African Enterprises

Recipient: The Entente Fund, made up of the five governments of Benin, Ivory Coast, Niger, Togo, and Upper Volta.

Goal and Purpose: The goal is the development of a modern African entrepreneurial business class in the five member countries. This is to be accomplished by strengthening existing African-owned businesses and helping create new businesses, by providing loan funds and technical assistance through the Entente Fund to the existing development banks for relending to entrepreneurs. To assist in attaining the goal, the operations of the development banks, national promotion centers, and guaranty funds (which guarantee repayment of bank loans to entrepreneurs) are to be strengthened.

Amounts: AID has provided a total of $19.4 million in loans and grants. The first loan was for $7.5 million; the Loan Agreement was signed in March 1973. A second tranche amendment to the loan was for $10 million; the Loan Agreement was signed December 1975. About $3.4 million of the second loan remained undisbursed to the development banks at the time of this evaluation. Grant agreements total $1.88 million to date, with about $300,000 remaining undisbursed.

Terms: The loans are repayable to AID by the Entente Fund in U.S. dollars over 40 years, with a 10-year grace period on repayment of principal, with interest of 2 percent per annum during the grace period and 3 percent per annum thereafter. Repayment is guaranteed by the five Entente governments. All repayments are up to date. The Fund reloans to the six development banks in the five countries (two in the Ivory Coast, one in each of the other four countries) at 30 years at 3.5 percent with a 5-year grace period.

Terminal Dates: The terminal disbursement date for use of loan funds is April 30, 1983; the original date was February 7, 1980, but it has been extended twice.

LIST OF ACRONYMS

BCEAO	Central Bank of West Africa
CNPPME	Business Promotion Center in Togo
EEC	European Economic Community
EF	Mutual Aid and Loan Guaranty Fund, usually called the Entente Fund
FCFA	Franc, unit of currency of the BCEAO, common to all five Entente countries
IBRD	International Bank for Reconstruction and Development
IMF	International Monetary Fund
OPEI	Business Promotion Center in Ivory Coast
OPEV	Business Promotion Center in Upper Volta
OPEN	Business Promotion Center in Niger
REDSO	Regional Economic and Development Service Organization (USAID)
SME	Small- and Medium-Size Enterprises
UNIDO	United Nations Industrial Development Organization
USAID	United States Agency for International Development

ENTENTE FUND COUNTRIES AND DEVELOPMENT BANKS PARTICIPATING IN THE AFRICAN ENTERPRISES PROGRAM

Council of the Entente States
(Conseil de l'Entente)

Benin	-	Republique Populaire du Benin
Ivory Coast	-	Republique de Côte d'Ivoire
Niger	-	Republique du Niger
Togo	-	Republique Togolaise
Upper Volta	-	Republique de Haute Volta

Development Banks

BBD	-	Banque Beninoise Pour le Developpement, (Benin Development Bank), Cotonou, Benin
BDRN	-	Banque de Developpement de la Republique du Niger, (Republic of Niger Development Bank), Niamey, Niger
BIDI	-	Banque Ivoirienne de Developpement Industriel, (Ivory Coast Industrial Development Bank), Abidjan, Ivory Coast
BNDHV	-	Banque Nationale de Developpement de Haute Volta, (Upper Volta National Development Bank), Ouagadougou, Upper Volta
BTD	-	Banque Togolaise de Developpement, (Togo Development Bank), Lome, Togo
CCI	-	Credit de la Côte d'Ivoire (Credit of the Ivory Coast), Abidjan, Ivory Coast

SUMMARY

The creation of a modern African entrepreneurial class and the growth of African-owned business firms are important to the strengthening of the economies of Africa. It is in the interest of the United States to support such developments, and thus, assistance by the U.S. Agency for International Development (AID) to indigenous small- and medium-size enterprises is warranted.

The program to assist African enterprises through the Entente Council (made up of five countries--the Benin, Ivory Coast, Niger, Togo, and Upper Volta) has been an important part of AID's total effort in French West Africa since 1973. The Council created the Mutual Aid and Loan Guaranty Fund (called the Entente Fund) in 1966 to promote economic development in the member countries. AID has provided about 75 percent ($66 million) of the outside donor assistance to the Entente Fund, of which $17.5 million in loans and $1.88 million in grants have been for the African Enterprises program.

AID's objectives in the African Enterprises program may be divided into two parts--first, to help African entrepreneurs by lending money and providing technical assistance to the Entente Fund, which would relend and provide technical help to six development banks in the member countries (two in the Ivory Coast, one in each of the other four countries), which in turn would sublend to African-owned enterprises; and second, to help strengthen the ability of these development banks, plus the promotion centers and guaranty funds to assist African-owned companies, and to encourage commercial bank lending to African entrepreneurs.

As of September 30, 1981, approximately $14.1 million of the AID loan funds had been disbursed, leaving $3.4 million to be used by the terminal disbursement date of April 30, 1983. Some 572 subloans had been extended to African entrepreneurs in the five countries, 34 percent of them in the Ivory Coast, 27 percent in Benin, 21 percent in Togo, 15 percent in Niger, and less than 4 percent in Upper Volta. Subloans were made in a wide variety of economic sectors--industry, agriculture, commerce, transportation, tourism, and crafts. Typical enterprises being helped were garages, furniture-making companies, bakeries, small restaurants and hotels, and traders of many types. About 70 percent of the loan volume financed fixed assets (almost all locally procured), with the remainder being used for working capital.

The evaluation team found that the two objectives of the program as indicated above have not been met.

With respect to the first objective, only about 72 subloans have been made annually, an average for each bank of 12 loans per year. Our sample survey showed that many of the subborrowers had been unsuccessful, and many were delinquent on their loan repayments. A significant volume of loan funds has gone to "large" firms, which was clearly not an objective of the program. Overall, there has been little discernible effect on the creation of a modern African entrepreneurial class or on the economies of the countries involved.

This is not to say that certain entrepreneurs have not benefited. New companies have been helped in getting started, and existing firms have been strengthened. These positive achievements would have been greater if effective technical assistance support had been provided to the African companies. This was required under the program, and in fact a good technical assistance plan was prepared, but unfortunately, it has not been implemented.

With respect to the second objective, the development banks as a whole have not become effective vehicles for assisting small African companies. Their ability to extend small credits has not improved in every country since the start of the program, and they provide little if any technical assistance to prospective or actual subborrowers. Most of the banks are in financial difficulty. As of September 30, 1981, four of the six showed excessive delinquency ratios on their small subloan portfolios.

Also, the promotion centers and guaranty funds are ineffective or nonexistent in four of the five countries, and the commercial banks have found that small- and medium-size African companies are too risky to finance in the absence of government guarantees and Central Bank rediscount facilities.

Two points must be stressed. First, the inadequacy of the institutions involved is due to inadequate management and resources, and also to changes in the economic and financial climate within which they operate. This climate has been volatile over the period of this program, and not conducive to small enterprise lending. Second, the Entente Fund itself is not a financial institution, and the approach and discipline of a financial institution is needed to run an effective, high-risk small- and medium-size credit program. The Entente Fund at the moment shows little sign of becoming such an institution. There have been frequent changeovers in the AID- financed U.S. advisors who managed the program for the Entente Fund, leaving it without direction at times. (This occurred despite the high qualities and abilities of most of the advisors, including the current ones.) Compounding this, AID itself has often failed to devote adequate staff and attention to directing the program.

There are at least five important lessons to be learned that are pertinent in one way or another to all programs designed to assist small- and medium-size enterprises in developing countries.

First, subloan criteria should be well defined before the program begins. Small- and medium-size enterprises should be defined, and decisions should be made on whether to concentrate on helping ongoing companies or establishing new ones (or a mixture of both); whether to emphasize investments in fixed assets or working capital (or both); and which economic sectors to stress in the lending program. Emphasis should be placed on higher quality subloans that have real economic returns, including increased employment. Lack of attention to these points has hurt the African Enterprises program.

Second, a careful assessment should be undertaken of the institution(s) that will administer the program. Frequently it will be found that management by a banking institution works best because the program is thereby placed into an ongoing, disciplined financial environment. Almost as important, AID must staff itself with credit expertise to monitor effectively such complicated undertakings.

Third, the borrower should make reasonable financial contributions. AID should not be financing almost the entire program as it has to date in the African Enterprises program. The loan repayment reflows, over and above those required to service the AID debt, should be "revolved" to create a permanent relending and technical assistance program for small- and medium-size companies.

Fourth, the provision of meaningful technical assistance to both the implementing institution(s) and the borrowing companies is extremely important to the success of such programs. Such assistance should be built in from the start, and continually monitored and adjusted as necessary. This has not been done in the African Enterprises undertaking.

Fifth, changes in the financial and economic environment within which the small- and medium-size enterprises program operates can markedly affect its success. Good management will follow such changes and determine whether and when adjustments in the program are necessary and possible to make it more effective.

I. PROGRAM SETTING

A. Development Status

The five member countries of the Entente Fund differ in their levels of development, as suggested by the following data in Table 1:

Table 1. Indicators of Development for Entente Fund Member Countries

	ılation in illions (1980)	GNP per Capita (U.S.$) (1980)	Percentage: Average Annual Real GDP Growth (1970-1980)	Percentage: Adult Literacy
Benin	3.683	300	3.0	11
Ivory Coast	8.208	1,150	5.7	20
Niger	5.419	330	2.6	8
Togo	2.635	410	2.8	18
Upper Volta	7.023	190	0.8	5

The Ivory Coast has a GNP per capita of $1,150, putting it among the middle-income developing countries, whereas the other countries are much poorer, ranging from Togo at $410 GNP per capita down to Upper Volta at only $190. Niger, Upper Volta, and Benin are included in the United Nations list of least developed countries. Educational and health levels among the members are more comparable. They are somewhat higher in the Ivory Coast and Togo, each of which has about 20 percent literacy, and lower in Niger, Upper Volta, and Benin. Life expectancy in all countries averages about 45 years.

The economies of the Ivory Coast and Togo have experienced fairly sustained, inflation-adjusted per capita growth over the last two decades. Landlocked Niger and Upper Volta were severely affected by the Sahelian drought of 1969-1974. While the uranium boom helped Niger's economy to recover temporarily in the latter part of the 1970s, increasing inflation and a high population growth rate have eroded its real per capita gains over time. Upper Volta's performance in terms of real growth has been steadily declining, leading to a decrease in per capita GNP. It has experienced substantial migration to its richer neighbors, particularly Ivory Coast. Benin also suffered economic disruption in the 1970s which severely restricted its real per capita gains between 1960 and 1978.

All five Entente Fund economies are basically agricultural. Mineral exploitation in several countries is quite recent and has been subject to fluctuating world demand and prices. In spite of institutional links which should encourage fairly well integrated economic relationships, in particular the monetary union between the Entente countries and Senegal, the five countries have remained essentially competitive with each other. Little has been done to develop complementary activities or intraregional markets. Local manufacturing is geared primarily to domestic consumption, and the principal external trade links for most of the countries are with France and the European Economic Community (EEC).

The external sector is important to all the countries: recorded merchandise imports represent approximately one-quarter to one-third of GDP, and import taxes are a major source of government revenue for most countries. Because exports consist primarily of agricultural and mineral commodities, the countries are quite vulnerable to fluctuating world demand and prices. Since the mid-1970s, rising fuel prices and worldwide recession, combined with high levels of external borrowing, have contributed to increasing balance of payments problems in all the countries.

A unique characteristic of the Entente Fund countries is their membership in the six-nation West African Monetary Union, discussed more fully in Appendix E. One feature of this Union is that the countries depend on a common Central Bank and therefore face constraints on their ability to pursue independent monetary and fiscal policies. The policy coordination required by the Union has to a certain extent been a stabilizing factor for management of the African Enterprises Program; however, Union-level policy changes in the banking system implemented in the mid-1970s have had an important effect on the structure of the program (see Section III.B).

B. African Entrepreneurs

The Ivory Coast has a sizable modern industrial sector, contributing about one-quarter of the nation's GDP; in Upper Volta, the industrial sector's share in GDP is about 17 percent; in Niger, 13 percent; Togo, 12 percent; and Benin, 10 percent. However, much of the production in this sector is by state-owned or mixed enterprises, and large-scale private firms are frequently foreign owned. Indeed, throughout the five countries, foreigners (primarily French) occupy many critical positions in the economy.

The indigenous African "modern" private sector tends toward small- and medium-size firms, and is more oriented to service activities (commerce, tourism) than to production. However, in all the countries there are large informal sectors of African craftsmen and traders, some of whom have quite large operations.

The low level of African ownership of large, modern industrial and commercial activities is attributed to a combination of factors. In part it is due to the recent independence and even more recent industrialization activities in the countries. Also, few Africans have the education and training in matters like accounting and production technology to be able to handle the management and operations of modern enterprises. Those with such training, for the most part, have found employment in the government service, in keeping with the traditional manner of getting ahead under the colonial regime. Finally, traditionally, it has been difficult for Africans to gain access to appropriate inputs such as bank credit, imported raw materials and machinery, and foreign technology.

C. Entente Council and Entente Fund

The five countries of the Entente have a total population of about 27 million people, and share a common history of having been part of French West Africa. When French West Africa was dissolved and the constituent units attained independence (eight units plus the adjoining Togo trusteeship), the Ivory Coast spearheaded an effort to create new organizations in the area for cooperative activities. The Entente Council is one result.

The Council was created by the presidents of four countries in May 1959 before full independence, and later joined by Togo in June 1966. Its purpose is to foster political and economic cooperation among the members. It has a variety of activities, that of the Mutual Aid and Loan Guaranty Fund (usually called the Entente Fund) being one of the most important. The Entente Council has been durable; all of the members except the Ivory Coast have had political upheavals since its creation--and the various governments now have widely differing political outlooks--but the organization continues to function and is considered an important institution by all of them.

The Entente Fund was created by the Council in June 1966 to promote economic development in the member countries. It seeks development loans and grants from foreign donors, and seeks to attract private foreign investments into the member countries. A Council of Administration manages the Fund; Mr. Paul Kaya was named Administrative Secretary of this

Council at the beginning and continues in that role to this day. Assisting him is a small staff of expatriates and Africans.

The five countries make contributions to the Entente Fund; in 1978, they agreed to contribute 668 million FCFA[1] ($2.4 million) annually during the period 1978-82. As of December 31, 1980, Fund holdings totaled approximately 9.2 billion FCFA, equivalent to about $40 million at the then current exchange rate of 225 FCFA to $1. The holdings are deposited in interest-bearing accounts in France; in 1980, interest alone amounted to 1.1 billion FCFA ($4.8 million).

Interest earnings are used by the Entente Fund to cover administrative expenses of the Secretariat, and guarantee loans and investments. Investments of an "economic nature" can be guaranteed up to 10 times the available capital (i.e., 9.2 billion times ten as of December 31, 1980), but only 9 percent of this guaranty authority had been used as of that date. Only public or semiprivate projects have benefited from the guaranties. The Ivory Coast, with a single exception, has decided not to avail itself of the guaranty authority, placing it at the disposal of the other four countries.

Foreign donor assistance received by the Fund totals the equivalent of about $83 million to date, of which $66 million or 75 percent has been from the United States. Other donors have been France, the Netherlands, Canada, the EEC, and the United Nations. AID assistance in the form of both loans and grants has been for rural development activities, grain stabilization, and a regional road maintenance training center, as well as for the African Enterprises program reviewed in this paper.

II. PROGRAM DESCRIPTION

A. How AID Got Involved

In 1969 the Entente Council asked the Entente Fund to develop a program to assist in the growth and strengthening of

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[1]The currency unit of the Entente Fund countries is the CFA franc, or FCFA, tied to the French franc. The exchange rate is fixed at 50 FCFA = 1 French franc.

African-owned business enterprises in the member countries. The Fund requested assistance in doing this from the United States, and AID financed a study by an expert (J. W. Langlois) regarding the requirements necessary for a successful program. Langlois concluded that the Entente Fund was capable of conducting such a program if various steps were taken, such as implementation of appropriate investment incentives in the member countries, and strengthening (and creation where necessary) of the development banks, promotion centers, and guaranty funds. The countries acted positively on many of his recommendations.

A subsequent AID-financed study by Spiro Associates concluded that the local development banks were competent to handle financial aspects of the program. With the help of these studies, AID proceeded to make the commitments described below.

B. Objectives

AID's objectives in this program may for clarity and convenience be divided into two parts--first, to help African entrepreneurs by lending money and providing technical assistance to the Entente Fund, which would relend and provide technical help to six development banks in the member countries (two in the Ivory Coast, one in each of the other four countries), which in turn would sublend to and help African-owned enterprises; and second, to help strengthen the ability of these development banks, plus the promotion centers and guaranty funds, to promote commercial bank lending and to assist African-owned companies.

The alternative of AID providing funds and the accompanying technical assistance directly and bilaterally to some or all of the countries and their development banks rather than through the Entente Fund seems not to have been seriously considered. This was apparently for two reasons: first, AID did not have Missions in most of the member countries at that time, and they would have been difficult to establish because of the then-existing Congressional limitations on the number of Missions; and second, the United States considered it politically desirable to help the Entente become a stronger regional institution. It is interesting that the studies by Langlois and Spiro Associates assumed that any AID assistance would be via the Entente.

An "African" enterprise eligible for assistance under the program was initially defined by AID and the Fund, in keeping with the criteria of the West African Central Bank, as one at least 35 percent owned by Africans. Under the second tranche loan, this was increased to 51 percent. In addition, the African owners had to be active in running the business. However, the word "small" was not clearly defined in the documents, and sometimes the terminology "small and medium" was used; this lack of a clearly defined target group has caused confusion and hurt the program.

A longer range desire on the part of the authors of the program was to get the commercial banks in the five countries into the business of seeking out and supporting smaller African-owned companies, which they traditionally had not done. It was hoped that this would happen gradually and naturally as African-owned firms were strengthened and grew under the stimulus of the African Enterprises program.

Finally, another much more ambitious set of objectives were also laid out in the AID documentation--that the program would help fill production and commercial gaps in the economies of the countries, reduce bottlenecks and barriers to economic growth, and reduce the role and control of expatriates in business. These objectives seem in retrospect to have been excessively ambitious and exaggerated, overemphasizing what such a relatively modest program could hope to achieve. It seems to the team that their main purpose may have been to help "sell" the program in Washington.

C. AID and Entente Fund Commitments

An AID development loan of \$7.5 million for the African Enterprises program was authorized in June 1972, and the Loan Agreement signed in March 1973. When these funds were substantially drawn down, AID authorized a second loan (called Tranche II) of \$10 million, with the Loan Amendment signed in December 1975. These two AID commitments provide all the loan resources for the development banks to finance subloans to African companies under this program; no Entente Fund resources are being used for this purpose.

A major technical assistance effort was recognized as necessary by the authors of the program and was provided for in the documentation and agreements. AID grants, which now total \$1.88 million, finance primarily the salaries of U.S. technical advisors under contract to the Entente Fund. Local support costs for the advisors, such as housing, office and clerical support, travel, and so on, are provided by the Fund.

Thus, AID is providing \$19.38 million for the African Enterprises program, which in fact is almost the total cost of the program. The AID commitments are as follows:

Tranche I Loan	\$ 7.5 million
Tranche II Loan (Amendment)	10.0 million
Technical Assistance Grants	1.88 million
Total	\$19.38 million

The AID loans are repayable in U.S. dollars over 40 years, with a 10-year grace period before repayments on the principals begin and with annual interest of 2 percent during the grace period and 3 percent thereafter. The Entente Fund has been paying interest to AID since August 1974, and principal repayments are scheduled to begin in February 1984, and terminate in 2018.

The Tranche II project paper spelled out the proposed Entente Fund financial contribution for technical assistance. It required 30 million FCFA (\$150,000) per year for three years, or a total of \$450,000, plus \$1,650,000 in loan reflows, or a total of \$2.1 million over a three-year period (the program is now in its sixth year). However, to date no reflows have been used for technical assistance.

The actual Entente financial contribution over the past five years averages about 60 million FCFA a year, or a total of 281 million FCFA (about \$1 million), and is confined to financing the local costs (housing, travel, offices and clerical support) of the U.S. advisors. Considering the large cash resources of the Entente Fund and the need for technical assistance, the evaluation team considers this contribution to be minimal.

D. Management and Technical Assistance

The Fund's Secretary set up a small unit to directly manage the African Enterprises program. Americans were hired for the two senior positions, and this has continued during the life of the program. Two new Americans arrived to take over the top positions in May 1981, but unfortunately they had no overlap with their predecessors. In past years other donors such as UNIDO and France (FAC) provided technical advisors, but their contracts expired in 1980-1981 and were not renewed. Such shifts of personnel and lack of overlap, and the absence of sufficient technical advisors, have hurt the program.

A plan for a strong long-term technical assistance effort was prepared by the Fund as required by an AID loan condition. The team considers this plan excellent, but unfortunately it has not been implemented (see Sections II.G and III.C.3 below).

The Entente Fund executed reloan agreements with each of the six development banks. The terms and conditions of these agreements are all the same--repayment over 30 years, including a five year grace period, with interest of 3.5 percent annually throughout the period. Since amortization periods are shorter and interest rates higher for repayments by the development banks to the Fund as compared to the Fund's repayments to AID, the Fund thereby acquires sums sooner and in larger volume than necessary to service the AID debt. Repayments to the Fund are in FCFA's while to AID they are in U.S. dollars. The development banks bear the foreign exchange risk. The member countries guarantee repayments to AID. Repayments by the development banks to the Fund and by the Fund to AID have been satisfactory thus far.

E. Data on Loans to African Enterprises

Below and in Table 2 is basic information concerning subloans made by the six development banks to African businesspeople and entrepreneurs since the funds became available in 1973. Reported and available data contain errors and inconsistencies, since figures available at the banks themselves sometimes differ from those in Entente Fund records. We have used figures that seem reasonable to us; but in any case, differences between competing figures would not affect the substance of the discussion and conclusions. However, the fact that different figures often exist indicates the need for better recordkeeping and reporting.

Table 2 shows that the number of subloans made under the program as of September 30, 1981, was 305 from the first tranche and 267 from the second, totaling 572. The two Ivory Coast banks accounted for over 50 percent of these in the first tranche, and 35 percent over both tranches. In volume, the Ivory Coast banks used 46 percent of the first tranche funds and 31 percent of the second.

A condition of the Tranche II Loan Agreement states that the amount reloaned to the banks in any one Entente country should not exceed 25 percent of the loan. This condition was included to prevent the Ivory Coast from using an excessive amount of the $10 million Tranche II loan, which unless monitored, could take place as it did under the Tranche I loan. Thus, the Ivory Coast is limited to $2.5 million of Tranche II funds.

Table 2 also shows that the development bank in Upper Volta (BNDHV) has virtually ceased participating in the program during the second tranche (only four loans for 31.3 million FCFA);

Table 2. Data Concerning Subloans Made Under the Entente Fund African Enterprise Program as of September 30, 1981 (millions of U.S.$ and FCFA)

Country	Development Bank	Tranche I: $7.5 Million[1] (fully disbursed)					Tranche II: $10 Million[2] ($6.6 million disbursed)					
		Disbursements Under Entente Loan Agreements With Banks[3]			Subloans		Entente Loan Agreements With Banks				Subloans	
							Signed Agreements	Disbursements[3]				
		U.S.$	FCFA	%	No	%	U.S.$	U.S.$	FCFA	%	No	%
Ivory Coast	CCI	1.0	238.5		144		1.0	1.0	240.2		26	
	BIDI	2.5	544.9		16		1.0	1.0	212.0		14	
		3.5	783.4	46	160	52.0			452.2	31	40	15.0
Benin	BBD	1.0	229.4	13	44	14.5	2.0	1.1	255.3	18	104	39.0
Togo	BTD	1.0	240.9	14	32	10.5	2.5	2.1	426.9	29	87	32.5
Niger	BDRN	1.0	226.1	13	51	17.0	2.0	1.3	290.7	20	32	12.0
Upper Volta	BND-HV	1.0	238.7	14	18	6.0	1.0	0.1	31.3	2	4	1.5
Total		7.5	1,718.5	100	305	100.0	9.5	6.6	1,456.4	100	267	100.0
					Uncommitted (no signed agreement)		0.5					
					Undisbursed			3.4				
							10.0	10.0				

1 AID Loan Agreement dated: March 9, 1973. Loan fully committed and disbursed over three-year period, 1972-1975.

2 AID Loan Agreement dated: March 29, 1976. Terminal Disbursement Date: December 31, 1982.

3 FCFA disbursements effected at various rates of exchange to the dollar.

Note: On October 9, 1980, AID disbursed the FCFA equivalent of $1.4 million to an interest-earning (reported 6.5% bank account of the Entente Fund. The disbursement was to cover development bank needs for a 90-day period, pursuant to the Entente disbursement request. At the time of the Evaluation, September to October 1981, twelve months after the disbursement, the equivalent of about $800,000 remained in the account. The Entente reports the equivalent of $6.6 million were disbursed to the development banks as of September 30, 1981. AID/W reports that $7.4 million were disbursed to the Entente as of this date, the difference being the $800,000 in the Entente bank account.

this is discussed later in this paper. Both this bank and the banks in Benin, Togo, and Niger had uncommitted funds under the program as of September 30, 1981, but the two banks in Ivory Coast had exhausted their credit lines of $1 million each.

Four additional points follow (also see Appendix G):

-- Industrial projects account for about 36 percent of the total value of the loans made, the largest percentage being in the Ivory Coast (49 percent) and the lowest in Benin (19 percent). Commercial activities account for about one-third of the volume (Benin the highest, Niger the lowest). The other 30 percent of the subloan activity is accounted for by projects in transportation, crafts, agriculture, and tourism, in that order.

-- By number of borrowers, about half the subloans went for commercial projects, 18 percent each for crafts and agriculture, with industry, transportation, and tourism following.

-- The subloans have been used to purchase fixed assets such as equipment and machinery to the extent of about 71 percent of the loan volume, with working capital funds accounting for the remaining 29 percent. These overall figures, however, mask large differences among the individual banks. BIDI in the Ivory Coast committed 100 percent of its funds for fixed assets, CCI 82 percent, and the Niger bank 89 percent. On the other hand, over two-thirds of the commitments in Benin and Upper Volta are for working capital.

-- Female-owned enterprises have acquired about 23 percent of the number of subloans made thus far, and male-owned 62 percent, with the remaining 15 percent acquired by companies. The average size subloan made to females is smaller, however; females received 12 percent of the volume of subloans while males received 41 percent (47 percent being to companies). Togo and Benin have been especially active in this regard, women having a long history of successful commercial activity and ownership of small firms in these two countries.

F. Special Accounts

A major AID condition (Section 5.02 of the Loan Agreement) requires that all loan repayments (reflows) from the development banks to the Entente Fund "be deposited in one or more

Special Accounts in a reputable bank or banks of international standing." The Fund is required to use these funds, and income derived from them, for debt servicing of the AID loans, reasonable administrative and overhead costs, and "general purposes in support of African enterprises" (e.g., technical assistance). Thus far these Special Accounts funds, which are in high-yielding time deposits in French and American banks, have been used only for interest payments to AID and for very limited administrative costs--none has been used for technical assistance or other support to the program.

Excess reflows (i.e., funds remaining after servicing of the AID loans and paying administrative costs) are accumulating in the Special Accounts. The Entente reported that these excess reflows (which the Entente calls "profits") in the Special Accounts amounted to $1.5 million as of June 30, 1981. This is projected to increase to $2.6 million by December 31, 1982, and $5.5 million at the end of 1985, and will continue to rise rapidly thereafter if not used in support of the African Enterprises program.

AID should have a lien (unfortunately it has not yet been established) regarding use of the Special Accounts. This lien is established by language in Section 5.02 which requires the Entente Fund to "create a floating lien or security interest on the Special Account(s) in favor of AID making AID a preferred creditor vis-a-vis such account over other present or future creditors of the Borrower including the member states. It is understood that the enforcement by AID of any rights under the lien shall not relieve the obligation of the parties to repay AID in United States Dollars." This lien assures that AID will be repaid from the Special Accounts if repayment is not made otherwise. It could provide some leverage to assure that the Special Accounts are used to support the African Enterprises program.

G. Long-Term Technical Assistance

A condition precedent of the second Loan Agreement (Section 11.1(d)) required "a detailed description of the technical assistance program intended to be carried out by the Entente Fund and financed by the reflows of the AID Loan. The paper will include, *inter alia*, an assessment of technical assistance requirements, a multiyear financial analysis of the proposed activities and a description of the institutional relationship envisioned under the program."

Such a long-term plan was prepared by the Entente Fund and accepted by REDSO. In the team's opinion, it is a sound plan, calling for $10.8 million to be used for comprehensive, continuing, and integrated technical assistance at three levels--the development banks, the promotion centers, and the African enterprises. A Regional Center for Business Administration also is to be established. Although the plan contemplates some specific contributions from other donors (such as France, the Ford Foundation, and UNIDO) which apparently have not been received, there still are sufficient funds deriving from the Special Accounts and the Entente Fund's other resources to mount a meaningful technical assistance effort. But the plan has not been implemented and this has seriously hurt the program.

H. Revolving Funds

The Entente Reloan Agreement (approved by AID) requires each of the six banks to establish a Revolving Fund for receiving loan payments from the subborrowers. The Revolving Funds are to be used by the banks to make additional subloans to African Enterprises. They are to be maintained in a separate account from the initial set of subloans for a period of five years, equal to the grace period of the Entente Reloan Agreement.

The purpose of the Revolving Funds is to extend the beneficial effect of the project beyond the initial subloans. The Entente Fund and REDSO were to assist each bank in establishing and operating Revolving Funds; such assistance initially was provided but has waned in recent years. Data available to the team do not give a clear picture of the amount of subloans made with the Revolving Funds. Reports are not regularly submitted to the Entente Fund and REDSO. But if data were completely tabulated, it would indicate a higher level of lending to small and medium enterprises than is evident considering only the initial set of subloans.

I. Other AID Conditions

Three additional conditions which AID attached to this program must be mentioned. These pertain to purchases in the United States or developing countries (Code 941), purchases of vehicles (Code 935), and a requirement that at least $2 million of the second loan of $10 million be used for subloans for agricultural, rural, and nutrition projects. Particular problems involving these conditions are discussed in Section III.C.6.

III. PROGRAM IMPACTS--ANALYSIS AND FINDINGS

The results of the African Enterprises program must be considered on two levels--first, whether or not smaller African businesses have been created or significantly expanded because of it, and second, whether the organizational entities such as the development banks have been strengthened so that they are increasingly effective in assisting African-owned companies.

Given the short time at our disposal and the complexity of the program--the involvement of five countries, six development banks, hundreds of subborrowers, four promotion centers, the guaranty funds, various ministries and governments, plus the Entente Fund and AID--this was a complex task. Below we discuss both of these matters. Finally, we mention other important points in Section III.C.

A. Impacts on African Entrepreneurs

The African Enterprises program overall has not had a significant impact on the economies of the five countries, even though some increased production has taken place and some new jobs have been created. The program is too modest to expect the achievement of major results. One notable exception involves the important and growing garage and vehicle maintenance business in Niger, which has definitely been strengthened through the impact of Entente Fund loans to about one-third of the garage and maintenance facilities in that country.

However, the program has had a positive impact on many of the individual African entrepreneurs receiving subloans--new companies have been helped in getting started, and some existing firms (large as well as small) have been strengthened. Positive achievements would have been much greater if an effective technical assistance program for small businesses had been conducted.

We arrived at the above conclusions after, among other things, selecting and interviewing a representative group of subborrowers in the five countries. This was the most time-consuming part of this evaluation. A description of the methodology used to select beneficiaries and the analysis of results are contained in Appendixes B and C.

We found that three sets of problems are common to the subborrowers in all five countries: the relationship between borrower and bank, the transaction cost of the loans, and the need for training and technical assistance.

Regarding the relationship between borrower and bank, most beneficiaries are not used to dealing with a bank and have never had even a checking account. They cannot prepare a loan application without assistance and must depend upon the ability and goodwill of the bank staff or the promotion center. The entrepreneur usually is not well informed on the loan conditions, including real cost (see below), and he or she has little influence on the processing of an application. It would be helpful if the Entente Fund helped each bank prepare a simple bulletin for potential borrowers explaining what a bank is, how to open and use a checking account, and what steps must be taken to apply for a loan.

The base interest rate charged by the banks for Entente Fund loans has varied over time with the Central Bank's rediscount rate and the spread allowed on SME loans. It has increased from a maximum of 6.5 percent in 1973 to 11 percent in 1981, and may be slightly higher for working capital loans.

However, interest is only part of the real cost of the loan to the subborrowers, many of whom are quite unaware of what they are actually paying. Transaction costs of securing loans are high even if only direct ones are considered; e.g., application fees, commissions for project preparation, account service charges for mandatory current accounts at the bank (average 3,000 FCFA per year), insurance, and collateral.

In addition to direct costs, there may also be other costs such as registering title and collateral, travel to and from the bank, and debits on late repayments. The development banks have few branches outside of the capital, and most banks handle the AID/Entente Fund line of credit only from headquarters; this means that a prospective subborrower from a rural area must plan to travel to the capital several times to arrange for a loan. In addition, the banks require large collaterals, often for more than the value of their loan. While in some countries a friend or relative with a steady (i.e., government) job can act as cosigner, in others the subborrower must use real estate property as collateral. This prevents many entrepreneurs from borrowing at all, and for those who do own land or a house, it means that their title must first be properly registered. The high costs of securing small credits in Africa have been documented in various studies. Technical assistance to both bank and borrowers should help reduce these costs, but there is little evidence to date that it has.

Some of the more astute entrepreneurs have opened two accounts, one with a commercial bank in the closest town, and one with the development bank in the capital. Short-term loans can be taken through overdraft on the commercial account, with the arduous process of obtaining a loan from a development bank being initiated only for larger, long-term investment loans.

Regarding technical assistance and training, most of the beneficiaries we visited would have welcomed more than they actually received. They especially felt the need for more information on sources of procurement and on recordkeeping (stock and accounting).

The Entente Fund staff is all based in Abidjan. It has prepared several informative and useful booklets for selected types of enterprises (garage, electrician, bakery, etc.). However, even though dedicated and energetic, the small staff cannot provide personal assistance to many entrepreneurs. If the Entente had its own people actually on-site at the banks, more personal attention could be given to borrowers.

We know of two successful credit programs to small and medium enterprises in Upper Volta, both financed by AID (see Appendix C). They have permanent technical assistants on-site who work closely with the entrepreneurs in rural areas. Very small loans are provided, intensive and continuing follow-up takes place, and an important training component is attached. These two programs are more effective than the Entente Fund program in that country.

We did meet entrepreneurs whose success is directly linked to loans under this program. In Niger, for example, a small company received a subloan in 1976 to create a repair shop for air conditioning equipment and radios. Later the company began installing electrical equipment in buildings, and today it has grown to become the only African company in Niger capable of handling electrical installations in large, complex buildings. The permanent staff has increased from 9 to 25, and up to 100 temporary workers are hired for some jobs; the company also subcontracts on occasion with smaller African firms.

Another example is that of a government worker in Niger who wanted to set up a restaurant in his home town. The development bank refused a loan because it was already financing a restaurant in the town. A friend of the applicant (a baker in Niamey) suggested that he start a bakery instead because there would be little competition. The BDRN provided 18 million FCFA in 1978 to finance the needed equipment, and his friend trained the staff in Niamey. Today this bakery serves the town, including several schools and one hospital, and several neighboring villages. It has 25 permanent employees, and now is developing a hotel and restaurant. The entrepreneur quit his government job to run his business.

B. Impacts on Organizations and Mechanisms

The second major objective of the African Enterprise program--to improve the development banks, promotion centers, commercial bank lending, and the use of guarantee funds to assist small African enterprises--has unfortunately not been achieved. Although there have been some individual achievements (for example, the improved competence of the Niger Development Bank in lending to small firms), in general the program seems to have had little or no positive effect on these institutions. The six banks as a whole have not become effective vehicles for assisting African enterprises, and most of the promotion centers and guaranty funds have not been very effective in supporting the program.

While some of the difficulties faced by the development banks can be related to problems in project design and management, a share of responsibility for the shortcomings of the banks must also be assigned to external factors, in particular the economic and financial environment within which they operate. First, the economic climate has been volatile at best in all countries--including the Ivory Coast in the late 1970s--and therefore not generally conducive to either financial resource mobilization or extensive small enterprise lending.

Second, the banking reform of July 1975 introduced a far-reaching change--a directive to induce commercial banks to increase their lending to preferred sectors and development banks to offer short-term, commercial services. This means that in effect all the banking institutions within the BCEAO system have become competitors for deposits and services. The net result of these changes from the development banks' point of view has been to put them at a disadvantage in terms of securing financial resources from the private sector, as well as spreading their physical and personnel resources very thin. This has contributed to distracting these banks from pursuing improvements in management and loan administration.

Finally the interest rate structure, designed to favor credit availability to preferred sectors (small- and medium-size enterprises, agriculture, low-income housing), has several perverse effects on the banking system, as follows:

-- The institution of a two-tiered discount rate as part of the July 1975 reform, while it raised the normal discount rate to a level competitive with rates in Europe (8 percent in 1975) and created a money market to help retain financial flows within the Union, simultaneously resulted in holding maximum returns payable on savings to the lower preferential rate level (5.5 percent). Since this was substantially below the prevailing rate of inflation, domestic mobilization of private funds for medium- and long-term development purposes was hampered. The government development banks continued to rely heavily on their governments for new capital contributions, on government deposits, and on relatively expensive Central Bank discounting for their funds.

-- Preferential interest rates induce credit rationing as demand for low-cost funds exceeds their supply. Under these circumstances, profitability of investment frequently becomes a secondary consideration, especially for government banks, which do not operate under strict profit motives. This has grave implications for loan repayments. Additionally, there is little incentive for the banks to improve their credit allocation by using market criteria.

-- To the extent that banks rely heavily on Central Bank rediscounting as a source of funds, the lending rate applicable to loans in the preferred sectors results in a lower spread on loans to risky SMEs relative to that on nonpreferential loans (3 percent maximum, versus 5 percent), creating a disincentive for this type of lending. Thanks to the African Enterprises loans which made funds available to them at 3.5 percent, the development banks were able to enjoy a return on Entente-funded loans equal to that available on normal loans (5 percent) for most of the period. Only since mid-1980 has this spread increased from 5 to 7.5 percent. On the whole then, these funds have not in and of themselves provided sufficient incentive to the banks to undertake significant internal improvements.

The $17.5 million in resources from the AID loans is not a significant amount of the overall resources available for small- and medium-size lending enterprises in the Entente Fund countries. In the Ivory Coast, available data show that small/medium loans outstanding as of December 31, 1980, approximated 21 billion FCFA; total Entente Fund disbursements over the life of the program amounted to only 1.3 billion FCFA. Although these figures are not comparable, they do suggest the minor role of the AID financing in the most active country in the program.

The status of the institutions in each country is summarized below. In Niger, the BDRN is a well-staffed, well-managed, and profitable bank, and has the best overall performance of all six banks under the program. The Entente provided valuable guidance to BDRN in the early years to help it launch small enterprises lending. Since then BDRN has also received World Bank assistance for small enterprises lending. However, out of a total of 1,900 small/medium subloans, the Entente program financed only 73, indicating the modest impact on BDRN's overall SME lending.

The bank had about $700,000 of Entente funds undisbursed as of September 30, 1981. This money was not moving apparently due to difficulty in meeting the requirement that at least $1.5 million of the $10 million second tranche be used for purchases in the United States or eligible Third World countries (Code 941). The Entente and REDSO should have helped the bank resolve this constraint earlier. Also, the bank has not been providing adequate status reports to the Entente, but it could if AID's reporting requirements were carefully explained and the importance of compliance stressed. Delinquencies are reported to be about 10 percent of outstanding Entente Fund loans.

The Niger Business Promotion Center (OPEN), created in 1979, is active and effective and works well with BDRN. Coordination between the two is frequent and productive. Guaranty funds in Niger have only recently become operative and have not been an important factor in small enterprise activities to date.

The bank in Togo (BTD) suffers acute financial, management, and morale problems. The bank's capital is virtually depleted due to uncollectable loans, excessive delinquencies, and inadequate reserves. Delinquency reports are outdated and lack credibility.

BTD does not have adequate up-to-date books and record systems showing the use and flow of Entente funds and the recording for each subloan of current repayments of principal and interest, etc. Ledgers are not maintained in one central, secure place, and postings are at times inaccurate and outdated. The Entente and REDSO should insist on current status reports and assist with necessary technical assistance to BTD.

The BTD has made informal arrangements with the government agricultural bank (CNCA) to finance CNCA's projects using Entente funds, reportedly for $1 million at an interest rate of 4 percent. A loan agreement between BTD and CNCA should be in place to support this "subloan," but it is not. This is irregular banking practice and should be corrected.

AID's project paper for the second tranche loan stated that BTD was in sound financial condition with profitable operations and that management was competent and adequate to handle the program. This is no longer true. BTD is in urgent need of long-term technical assistance aimed in particular at improving the performance of the accounting and loan-servicing departments. Such need should have been recognized earlier by the Entente Fund and REDSO and remedial action taken.

The Togo Promotion Center (CNPPME) is inoperative. It is without funds, structure, or procedures. The 1975 project paper cited CNPPME as "a dynamic institution"; this is not the case today. The guaranty fund is inactive since its guaranty authority has been fully used; no additional authority is expected in the near future.

The Benin Development Bank (BBD) seems financially viable and growing. It showed a net profit of 113 million FCFA in 1979 and 156 million FCFA in 1980. Total assets increased from 20 billion FCFA in 1979 to 26.8 billion FCFA in 1980.

BBD has competent senior management. Its primary weakness is in the accounting area--especially at the lower levels of the bank's operations. It has inadequate accounting control over its loans and needs help in maintaining precise loan ledgers, books, and records. Loan status reports to the Entente are inadequate and out of date. AID's reporting requirements and the importance of complying with them were not made sufficiently clear to the bank.

Inadequate loan collections is another problem, and arrears on small enterprises loans are excessive. As of March 31, 1981, 73 percent of Tranche I loans and 58 percent of Tranche II were delinquent. The evaluation team worked with the bank to prepare a delinquency report since no recent reports were available at the Entente or the bank. The Entente and REDSO need to focus on these problems.

There is no Promotion Center in Benin; instead BBD has its own in-house promotion department, one of the principal sources of business expertise in Benin. There is also no national guaranty fund in Benin.

The Upper Volta Development Bank (BND) has acute financial and managerial problems. In 1979 it suffered a loss of 388 million FCFA. No financial figures for the years 1980 and 1981 were available to the team. Only 22 subloans have been financed by AID as of September 1981, but several more applications have been submitted.

BND reports to the Entente are inaccurate and outdated. There is no compliance with AID's reporting requirements. The AID project paper for the second tranche loan reported that BND was financially healthy and had the competence and staff to handle the Entente Fund program; this was not true at the time of this evaluation. Unused Entente funds (about $900,000 at the time of the evaluation team's field work) probably should be reprogrammed or deobligated.

The Upper Volta Business Promotion Center does not work well with BND, and the guaranty fund was inactive in September 1982 because it was fully used.

In Ivory Coast the African Enterprises program works through BIDI and CCI. BIDI is partially privately owned (Chase Manhattan Bank, Lazard Brothers, and Banque Française de Commerce Exterieur have equity interests). It is a well-managed bank concentrating on the financing of large projects, but is not structured to assist small enterprises. BIDI's financial condition remains good even though its net income decreased from 233 million FCFA (approximately $900,000) in 1979 to 11 million FCFA ($42,000) in 1980. Arrears, including those from the AID-financed loans, are within acceptable limits.

The impact of BIDI's financing on African businesses under the program is insignificant. The projects financed with AID funds would have been financed with other funds if AID money had not been available. One questions why BIDI was included in the AID/Entente Fund program in the first place. It has received, due to the large interest spread (4.5 percent until 1980 and 7.5 percent since then) significant profits on the use of concessional AID money. It would be difficult to justify an increase in loan funds to BIDI under the program unless the bank were to adopt a policy of lending to small enterprises.

CCI is a multipurpose public development bank established in 1955. It finances housing, industry, trade, artisans, hotels, consumer durables, and automobiles. CCI has traditionally played a major role in small-enterprises financing, particularly in the early years of the Entente Fund program.

Total assets of CCI were 53.4 billion FCFA as of September 30, 1981. Profits have been modest, 21 million FCFA in 1979 and 28 million FCFA in 1980. Due to a loan portfolio of mixed quality, inadequate reserves, and economic recession in the Ivory Coast, CCI's financial performance fell off in 1981, suffering a loss of 494 million FCFA ($1.5 million), about 20 percent of its net worth. The burden of complying with the banking reform also contributed to poor performance. Loan approvals dropped and arrears increased, estimated by the IBRD to be around 60 percent.

CCI is now shifting its lending to short-term, more profitable commercial loans. In 1981, small enterprise loans decreased to around 17 percent of the bank's portfolio from a previous level of 25 to 30 percent. Entente Fund funds amount to only about 6.6 percent of the bank's small enterprise portfolio, and only 1.2 percent of the entire loan portfolio.

Both the Entente and REDSO seem unclear about CCI's overall performance in general and the AID-financed subprojects in particular. CCI's reports have not provided sufficient information about delinquencies, etc. Bank sources indicate that AID's reporting requirements were not made clear; it appears that CCI is perfectly capable of providing these reports if the Entente Fund insists.

The Ivory Coast Business Promotion Center (OPEI) operates ineffectually as a department in the Ministry of Plans and Industry. It has had serious difficulties over recent years, declining government support and its relations with the two development banks have been poor. BIDI does its own promotion work, not relying on OPEI. CCI can use the help of a promotion center, but OPEI has been ineffective. Only a few proposals prepared by OPEI have been financed under the African Enterprises program, five or six since 1974.

The guaranty funds in Ivory Coast are inoperative. Several reorganizations (mergers with other institutions) have been attempted, all unsuccessful.

C. Other Findings

1. Unclear Target Group

We indicated earlier that the target group under the African Enterprises program was not clearly defined at the beginning, and still is not. Some of the documents say that "small" African-owned firms are to be assisted, others that "small and medium" (SME) firms are the targets. Individual banks appear to have different notions of what is "small." And as we have seen, a significant number of loans under the program have been made to companies that are without doubt "large"--almost all of BIDI's portfolio is of this type, as are two of the subloans in Upper Volta.

Also unclear is whether specific economic sectors should be targeted for subloans under the program. In Niger, where this was done, results seem to be markedly superior both in terms of contributing to sectoral growth as well as in helping the bank to develop expertise. In other development banks, scarce technical talent has been spread very thin by trying to service a broad spectrum of SMEs. The questions of whether the program should emphasize the strengthening of existing African-owned businesses or the creation of new firms, or both, and of whether use of loans for fixed assets or working capital should be stressed, also have never been clarified.

We believe that the above uncertainties concerning the target group have hurt the program.

2. Lack of Entente Fund Contribution

As mentioned earlier, the AID loans and grants have provided most of the funds for the African Enterprises program to date. All the funds for relending--$17.5 million--have come from the two loans. The AID grants provide salaries for the American advisors. The Entente Fund covers local costs of the advisors, such as housing, travel, and administrative support.

We believe that AID's financial contribution to the program has been too large a share of the total. The Entente Fund or the member governments should be providing more resources in support of the program.

3. Lack of Technical Assistance

The effective technical assistance that is essential to the success of this program has been lacking. It should be available to African companies participating or seeking to participate in the program, for both the preparation and implementation of their projects. It should also focus on helping the development banks become more effective instruments in assisting small enterprises.

4. Inadequate Records and Reports

We have indicated several times that overall recordkeeping under the African Enterprises program is inadequate. Data often are incomplete and entered late, files were misplaced, and information at Entente headquarters often differs from that at the banks. Report requirements under the AID loans, spelled out in Implementation Letter Number 13, have not been met.

5. Lack of Management Attention

The program has not been consistently managed or closely monitored at all times. All parties are guilty in this regard--AID/Washington, REDSO, the Entente Fund, and the development banks. Since the program is complex, it has suffered greatly from this lack of continuing attention.

Regarding AID, we have the impression that the program was considered extremely important and was enthusiastically pursued and supported for the first several years, but that in recent years attention to it has lagged. Perhaps it became a victim of the well-known AID tendency to concentrate management attention and resources on new activities to the relative neglect of implementation of older commitments.

AID's attitude seems to have been compounded by waning interest by the Entente Fund and the development banks themselves. Evidence of this includes not only such matters as lack of attention to the Code 941 and 935 problems, but also such a key point as slowdown in subloans and disbursal rates. It took three years for the first $7.5 million to be committed, but the $10 million is only two-thirds disbursed after five years, and its original terminal date of February 7, 1980 has been extended twice and is now December 31, 1982.

6. Problems with Special AID Conditions

AID's Code 941 requirement under this program is that not less than 15 percent of the $10 million second tranche, i.e., $1.5 million, be used for procurements in the United States or eligible Third World countries. It did not appear to the team that this was a reasonable requirement in light of the fact that almost all the subborrowers under the program would naturally be purchasing on local markets rather than importing. The only way to ensure that such a requirement might be met would be to lend to modern large- and medium-size African firms that import significant amounts of equipment and supplies; even meeting the requirement in this manner would be difficult given the fact that there are not many large African-owned enterprises, and large firms have commercial ties with France and Europe rather than the United States.

The Entente Fund nevertheless has made a strong effort to meet the 941 requirement. The requirement is written into their Loan Agreements with most of the development banks (however, BIDI, for the second tranche, refused to accept this restrictive condition; ironically, since BIDI lends to large companies, it is the best placed of all the banks to help the Entente meet the requirement). The banks, however, have not been requesting pertinent information from their subborrowers. Some of them are not drawing down portions of their funds because of uncertainty over how to meet the requirement. Nevertheless, the banks and the Fund apparently have been reporting to REDSO some or all subloan purchases denominated in U.S. dollars as 941 procurement, even though there is no necessary relationship between denomination in dollars and actual procurement in the United States or developing countries.

We are of the opinion that the 941 requirement was not wise in the first place and that accurate data regarding performance under the requirement have not been kept. It has unnecessarily complicated disbursements under the loan.

Code 935 requires that only U.S.-made vehicles may be purchased with AID funds. Since it was expected that small entrepreneurs in the transportation sector would be significant borrowers of funds, and given the fact that U.S. manufacturers do not have dealer outlets or servicing facilities in these countries, this standard provision was waived to permit up to 10 percent, or $1 million, of the second tranche to be used for the procurement of non-U.S. manufactured vehicles. Unfortunately, it appears that both Entente and AID management have overlooked this requirement, and no current data seem to be available as to whether or not it is being complied with. Given the number of subloans which appear to involve the purchase of vehicles, the limit may have been exceeded.

The third special provision of the second tranche, that $2 million be used for subloans to enterprises predominately engaged in agriculture, rural development, and/or nutrition-related activities, was in keeping with AID's orientation towards meeting basic human needs. Although the Entente Fund imposed this requirement on the banks, once again it appears that neither the Entente nor AID have kept track of it. Neither has AID made clear to the Entente what subloans would be considered as falling within the scope of this requirement. It is the team's impression that under a liberal but reasonable interpretation of what commitments fall within the agricultural/rural development/nutrition area, the requirement probably has already been met.

IV. CONCLUSIONS AND RECOMMENDATIONS

The growth of African-owned business firms is desirable for the long-run growth and strengthening of the economies of the Entente Fund countries. It is in the U.S. interest that such firms expand in number and prosper, and thus, an AID program aimed at assisting smaller African companies is not unwarranted. In fact, such a program fits directly with the private enterprise thrust of the current administration, and in that sense is even more pertinent today than when it was started.

Unfortunately, however, the African Enterprises program reviewed herein has not fulfilled the intentions of its authors. Below we summarize the program's impacts and conclusions stemming from our evaluation. Then we make certain recommendations regarding both the current program and possible continuation of it.

-- The African Enterprises program has had positive impact on many of the firms that received subloans--new companies have been helped in getting started and some existing firms have been strengthened. However, the subloans are too few to have a significant effect on the economies of the five Entente Fund countries.

-- Positive achievements by borrowers would have been much greater if an effective technical assistance effort for the development banks and for potential and actual borrowing firms had been conducted, and if closer attention was paid to the economic and financial constraints within which the program operates.

-- The most widespread beneficial impacts on African firms have occurred in Niger.

-- The intended positive impact on the institutions involved, notably the six participating development banks but also the promotion centers and national guaranty funds, has not been achieved. (A notable exception is the improved competence of the Niger Development Bank in lending to small firms.) These banks as a whole have not become effective vehicles for assisting African enterprises, and many of the promotion centers and guaranty funds have been ineffective. Primary responsibility for this rests with the policies of the governments and Central Banks; but closer monitoring might have helped the development banks to adjust to changing policies.

-- The target group to receive subloans has never been clearly defined, and this has hurt the program.

-- AID has provided all the loanable funds for the program and a large share of the support costs; the Entente Fund and/or the member governments should be providing more of the costs.

-- The Entente Fund acquires monies that could be made available to support the African Enterprises program from repayment reflows from the six banks and from interest earned on capital. Furthermore, although the annual contributions to the Fund by the member governments are intended for the guaranty program, the members could consider changing that requirement to permit a portion of these contributions to be used for loans to the development banks for relending to African entrepreneurs. This is especially pertinent since most of these funds are not today being used for guaranties, but instead are lying idle collecting interest.

-- Excess reflows from the development banks are deposited in Special Accounts, and were to be used to support the program. But although an elaborate technical assistance plan was developed, it has not been carried out. Meanwhile, excess funds in the Special Accounts are accumulating rapidly and are not being used.

-- Most of the banks have reloaned some of their repayments from borrowers back to African entrepreneurs (Revolving Funds). Data on this are not complete but, if available, would probably show greater impact in terms of credit extended through the program than is evident considering only the initial set of subloans.

-- The banks, the Entente Fund, and AID all have inadequate and incomplete data on the program; AID reporting requirements frequently have not been met.

-- All the entities involved--AID/Washington, REDSO, the Entente Fund, and the development banks--have not devoted adequate time or resources to managing the program.

-- Three particular AID conditions--Code 941, Code 935, and $2 million for subloans for agriculture/rural development projects--were either inadequately thought out or have not been monitored.

We recommend that the following actions be taken promptly (some of these have been discussed with REDSO, AID/Washington, and Entente Fund staff and are already under way):

-- AID should undertake an audit of the AID loans and grants for this program.

-- The Entente Fund should submit to AID a current audited balance sheet and a profit and loss statement.

-- The Entente Fund and REDSO should consider if and how the remaining undisbursed loan funds can be wisely committed before the terminal disbursement date of December 31, 1982. This presumably will require reprogramming of some funds from one bank(s) to others, and/or deobligations.

-- Funds should not be reprogrammed to BIDI unless it begins lending to smaller companies. The other banks should be reassessed to determine if they can effectively conduct the program; this applies particularly to the Upper Volta and Togo banks.

-- AID should decide not to extend disbursements under the existing loan and grant beyond the current terminal dates; instead it should assess whether or not to continue the program under revised terms and conditions (see below).

-- Clear, reliable, and complete data should be developed concerning how the subloan repayment reflows (Revolving Funds) from the borrowers to the development banks have been or are being used, and then REDSO and the Entente should assure that they are effectively used in the future.

-- REDSO and the Entente Fund also should calculate the magnitude of current and future accumulations of funds flowing into the Special Accounts from loan repayments by the banks to the Fund, under selected conditions (e.g., varying interest rates, amounts necessary for debt servicing, reasonable administrative costs, amounts to be used for technical assistance).

-- The Entente Fund should submit a report to AID on the Special Accounts pursuant to Section 5.02 of the Loan Agreement. The lien required by this provision should be provided to AID.

-- The Entente Fund should start a technical assistance program financed from excess funds in the Special Accounts (and possibly from other Entente resources).

-- The Entente Fund and AID should determine how the accumulations of funds that will accrue to the Special Accounts in coming years will be used.

-- The Entente Fund, assisted by AID, should make all data and reports on the program up-to-date and reliable, and keep them that way. This will require providing assistance to the development banks.

-- REDSO should take steps with the Entente Fund to ensure compliance with, or change as necessary, the requirements of Code 941, Code 935, and to finance agriculture/rural development projects.

In considering whether or not to continue to be involved in the Entente Fund African Enterprises program beyond the existing loans and grant, AID should take into account the following:

-- The growth of African-owned businesses in the Entente countries is desirable, and if AID can assist in such growth, it should do so.

-- A regional, nonbanking institution, such as the Entente Fund, may not be the best entity with which to work; assistance bilaterally to these countries or a program through a regional bank (e.g., African Development Bank, BOAD, or BCEAO) or through commercial banks might be more effective.

-- However, a major advantage in continuing to work through the Entente Fund is that it has been and is accumulating large deposits from loan reflows (the Special Accounts), interest income, and from contributions by the member governments; these could be tapped for loans and technical assistance to the development banks and to African entrepreneurs--i.e., further AID commitments could be minimal or even not be necessary to perpetuate the program.

-- If the Entente Fund is reluctant to use any AID-generated reflows for technical assistance and for loans to support the programs (over and above those amounts necessary to service the AID debt and for administrative costs), AID should not continue to support the program through the Fund.

-- Implementation of a strong, continuing technical assistance program is a must for continued AID involvement; this should include both Entente Fund assistance to the banks and assistance by the banks to subborrowers and potential subborrowers. Consideration should be given to having an Entente Fund advisor permanently assigned to each of the banks outside the Ivory Coast to provide technical assistance to both the banks and small business subloan applicants, and to monitor use of AID-funded Entente resources by the banks.

-- The target group should be carefully defined and include medium-size African firms as well as small ones. Consideration should be given to concentrating subloans in support of a limited number of priority sectors, depending on individual country problems and needs.

-- Most promotion centers have not been effective in working with the development banks and small enterprises; it may be better for the Entente Fund to provide specialized assistance to the banks to create the ability within the banks to fulfill the role that the promotion centers were to fulfill.

V. LESSONS LEARNED

Below we identify 14 important general lessons to be learned from the African Enterprises program. These lessons are pertinent in one way or another to all programs designed to assist small- and medium-size entrepreneurs in developing countries.

A. Target Group

1. Define clearly and as carefully as possible the target clientele, i.e., what is meant by "small and medium"; also, do you want to concentrate on helping ongoing businesses or establishing new ones (or a mixture of both), and do you want to emphasize investments for fixed assets or working capital (or both).

2. Consider whether it is best to concentrate on a few high priority sectors rather than provide subloans for small/medium businesses of all types.

B. Implementing Institutions

3. When attempting to assist small and medium businesses in more than one country, assess carefully at the very beginning whether it is best to work through a central or regional organization or banking institution; or to deal bilaterally and separately with each individual country through a banking institution(s).

4. The borrower or implementing entity should make reasonable financial contributions to the enterprises support program; AID should not finance all or even the great bulk of the program.

5. Consider using the loan repayment reflows--over and above those required to service the debt--for both technical assistance and relending for the same purpose of promoting small and medium enterprises. This creates and "institutionalizes" a permanent, revolving loan program.

6. Provision of technical assistance is extremely important to the success of small- and medium-size enterprises programs and should be built into the program from the start and continually implemented, adjusted, and monitored.

7. Carefully assess whether independent business promotion centers will be essential or useful to the program, and whether they should be incorporated directly into the program; or whether the participating banks should have their own promotion departments.

8. Do not exaggerate what a program to help small and medium business will or can achieve for the economy as a whole, especially in a relatively short time span.

C. Management

9. Small and medium enterprises programs are complex and must be carefully and continually managed and monitored. Make certain AID and the borrower will have the resources and commitments to do this over the life of the programs before supporting such programs.

10. Economic and financial policy changes in the host country can affect the operation of programs to assist small and medium enterprises. Good management must be aware of such changes and make compensating adjustments to keep the program as effective as possible.

11. Set up clear data collection and statistical reporting systems, and follow them.

12. Make the availability of loan funds for small and medium indigenous entrepreneurs known to the business sector throughout the area; i.e., publicize the program.

13. If subloans above a certain size must be approved at a higher level or by AID, have a system that permits reviews and decisions to be made promptly.

14. Carefully consider what specific technical conditions are desirable or necessary for this type of program, and if it is possible to monitor and control fulfillment of these conditions; for example, requirements to buy American (Code 941). For those conditions that are included, AID must, at the beginning, define for the borrower exactly how they can be met.

APPENDIX A

ECONOMIC BACKGROUND, DISCUSSION, AND ANALYSES OF THE PROJECT INSTITUTIONS

I. IVORY COAST

A. Economic Background

The Ivory Coast enjoys an enviable position in Sub-Saharan Africa; it has the highest per capita GNP after South Africa. Average annual real growth of per capita GNP over the period 1960-1979 was approximately 2.5 percent, a remarkable achievement given the high population growth rate. Vulnerability to fluctuations in the world economy contributed to a slight deficit in actual per capita income in 1979 and 1980.

The population of 8.2 million is growing at a very rapid 4 percent yearly rate. It includes a high proportion of foreigners, mostly Africans from neighboring countries. Europeans number around 100,000. Up to 25 percent of the total population may be foreign, compared with 20 percent in 1965. Income transferred abroad is thus a significant factor in the Ivory Coast's balance of payments situation.

Eighty percent of the labor force is engaged in agriculture. The majority of the foreign African laborers are employed in this sector, on the coffee and cocoa plantations. Their contribution is crucial in view of their numbers, their low cost, and the shortage of Ivorians prepared to work in the plantations.

The Ivory Coast's liberal economic policies have made it an important financial and commercial center in West Africa. Sustained, dynamic growth has been spurred by incentives for private foreign investments and essentially free repatriation of profits. Average annual real growth of GDP from 1960-1980 was about 7 percent, reflecting the expansion of agriculture as well as the creation of a diversified manufacturing sector. Mineral resource exploitation has been minimal, though oil production (begun in late 1980) is expected to help reverse current balance of payments difficulties.

Reflecting the highly open character of Ivory Coast's economy, the services sector--which includes foreign trade activities--contributes close to 50 percent of total GDP. Agriculture and manufacturing/construction share the remainder almost equally.

Agriculture is the main economic activity in the Ivory Coast. Together with forestry, livestock, and fishing, it engages the activity of the bulk of the working population and provides for approximately three-quarters of total export earnings. Agricultural commodities form the basis of the country's principal processing and manufacturing industries.

Yams, plantains, cassava, and rice are the most important food crops. Coffee and cocoa produced on small farms are the traditional cash crops, accounting for half of total export earnings. The Ivory Coast is the world's largest exporter of cocoa, and third largest of coffee. Diversification into exportable fruits (bananas and pineapples), sugar, cotton, rubber, and particularly palm oil produced in village plantations has been undertaken as a means of reducing dependence on traditional crops.

The forestry sector, the third largest earner of foreign exchange after coffee and cocoa, suffered repeated setbacks during the mid-1970s. In 1973, exports of timber and timber products represented 35 percent ot total export receipts. As a result of decreased foreign demand caused by recession in Europe and aggravated by domestic problems including recent conservation measures, production volume increased by only 4 percent on average between 1976 and 1980. Receipts from timber declined to 12 percent of total export receipts in 1978, although they recovered. Domestically rising prices adversely affected efforts to promote wood processing activities by locally owned small-scale industries, some of which are beneficiaries of the AID/Entente Fund African Enterprises line of credit.

Since improved veterinary standards have made it possible to combat tropical diseases in animals in the forest zones of Ivory Coast, successful efforts are being made to expand animal husbandry and feedstuff production, and to improve sanitary conditions. It is estimated that the 1980 domestic production met about 45 percent of consumption needs. Expansion has occurred principally by increasing small- and medium-scale poultry production. Several large beef production units are planned to be set up close to sugar plantations, to take advantage of byproducts that are suitable for feed.

To reduce reliance on imports of fish (approximately 30 percent of domestic consumption requirements) various projects are being implemented, including the development of fish farming in the lagoons.

The manufacturing sector has contributed somewhat over 10 percent of GDP in recent years. The rapid rise in agricultural income between 1975 and 1978 as a result of high international prices for coffee and cocoa is credited with keeping manufacturing's share of GDP at a fairly constant level. However, growth within the sector was substantial. Cumulative gross capital formation increased 70 percent between 1975/1976 and 1978/1979. During the same time, turnover in the manufacturing industry, led by food processing, nearly doubled. Since most of the import substitution investment opportunities have been taken up, the government's strategy is increasingly aimed at encouraging the growth of export-oriented industries based on processing locally produced commodities. The objective is to increase the share of manufactured exports to approximately 50 percent of the total, compared with the current 30 percent share.

In addition to food processing, textiles, wood, and chemical industries (including rubber processing) are important. Production of construction materials has increased rapidly, supporting the construction industry's growing importance to the economy.

Commercial activity--wholesale and retail trade, restaurants, hotels--accounted for roughly 25 percent of GDP in the late 1970s. Much of the trade component reflects the importance of foreign trade in the economy. Indeed, a 1976 investigation found that export/import activities and commercial fuel distribution accounted for approximately 60 percent of total commercial value added. (Exports as a proportion of GDP averaged close to 35 percent between 1976 and 1979, but this figure has fallen somewhat as a result of the world economic slowdown.) The profits of the agricultural price stabilization board (CSSPA) on commodity exports are included here.

Services (public and private) and transport constitute another 30 percent of GDP. In the aggregate, then, this sector of the economy accounts for half of recorded GDP. As with the other countries of the Entente Fund, it is in this area that much of the small-and medium-size indigenous enterprises are found.

B. Policy Environment

The traditional sector provides activity for the bulk of the economically active part of the population, in farming, artisan production, or trade. In 1980, based on social security data, the modern sector provided employment for about 10 percent of the labor force. Employment in this sector is not expected to grow very fast because of low overall economic growth and because it is relatively capital intensive. Heavy social security and payroll taxes on employers tend to discourage labor-intensive methods; and capital-using bias is reinforced by exemptions from import duties on imported capital goods. Revisions of the investment code are expected to correct this bias to some extent.

An educational system ill-suited to actual requirements of the labor market aggravates urban unemployment of unskilled workers. Increased mechanization and improved infrastructure and living conditions will be used to help control rural-urban

25 percent, and public sector investment compensated for the shortfall. Unfortunately, a number of publicly financed projects were chosen less on the basis of profitability criteria than with a view to enhancing social and regional equality. The sugar plantations and refinery complexes in the north are an example of this selection process.

Public enterprises are numerous and active in all sectors of the economy. They account for close to half of all public investments. Until very recently there has been little centralized control of the financial policies of these enterprises. For some years they enjoyed substantial independence in borrowing directly from abroad under government guaranty. In addition to operating losses, this caused increased pressure on the government budget. Reform and consolidation of this sector is a major objective of the International Monetary Fund (IMF) stabilization program.

The increasing burden of public enterprise losses plus growing debt service obligations, combined with decreased revenues reflecting poor export performance, has resulted in increasingly large budget deficits. Between 1978 and 1980 the deficit doubled, from 155 billion FCFA to 310 billion. Although measures to restrain expenditures and to reduce dependence on foreign borrowing to finance the deficit have been taken, the sharp depreciation of the CFA franc against the dollar in 1981 and continued high interest rates in international markets will result in higher than expected debt service costs.

C. Ivorian Enterprises

The rapid growth of agriculture, policies favoring direct foreign investment (with expatriate management and technicians), and adequate infrastructure have all contributed to significant development of industry in the Ivory Coast in the 20 years since independence. Since the mid-1970s, increasing attention has been given to the need to increase the Ivorian-owned share of productive capital. From 1975 to 1979, this share increased from less than 35 percent to appoximately 45 percent of the total. Among the measures taken to encourage "Ivorianization" within the context of an open economy have been direct government equity participation in firms, creation of an equity participation fund (SONAFI) available to both government and enterprises, establishment of a stock exchange (in 1976) restricted to Ivorians, and measures to help keep financial capital within the country and mobilize it for productive investment. No less important is the need to train Ivorian managers and technicians to work in modern sector firms.

A further aspect of efforts to promote and increase local participation in the economy is through support of small- and medium-scale enterprises (SMEs) which are recognized as the breeding ground for an eventual class of local entrepreneurs. In support of this goal, several institutions were created early in the 1970s: a national promotion office (OPEI), to provide technical assistance to small-scale firms and help them develop lending proposals to present to financial institutions, and a Guaranty Fund for small business loans. These efforts were later supplemented by the 1975 Central Bank reforms which gave priority status to small-enterprise financing.

Small enterprises in the West African context are frequently in the artisanal or informal sector--characterized by family ownership and operation, use of predominantly local resources, small scale of operation, rudimentary operating equipment, few wage-earners, and use of accounting procedures often indistinguishable from family finances. Typical activities include grain milling, textiles, garages, and wood products. It is difficult to classify small firms as belonging in the traditional or modern sectors. One criterion apparently is registration--which also implies that business taxes are paid (theoretically). A 1976 study found that 15 to 20 percent of firms incorporating themselves in the modern sector were artisans whose businesses had prospered. Roughly 15 percent of manufacturing output came from such firms. However, the great majority of small-scale firms are heavily oriented toward trade and commerce.

The principal constraints facing SMEs include lack of financial resources, competition from foreign-managed firms, and insufficient technical and managerial expertise. These constraints apply even more strongly to the smaller artisan operations--whether they be involved in manufacturing or traditional crafts activities.

In spite of the measures indicated above, supplemented primarily by AID and the International Bank for Reconstruction and Development (IBRD) loans to the development bank Credit de la Côte d'Ivoire (CCI), and UNIDO and French technical assistance to OPEI, overall support to SMEs has not been very effective. On the institutional side, promotion activities have fallen short. Neither the Guaranty Fund nor SONAFI has operated efficiently; the preferential system of interest rates combined with banking regulations and the inherent high risk of small business has contributed to allocation of credit using nonmarket criteria. On the policy side, the trend toward export promotion of locally processed raw materials has backfired on local Ivorians attempting to set up an industry because foreign demand has decreased due to recession in the developed countries. Firms in the wood sector, in particular, have been hard hit. Efforts to create artisan cooperatives are not particularly successful.

Tax and regulatory policy still disfavors small firms--and is more generally enforced than in some countries we have visited. A high payroll and value added tax penalizes labor-intensive industries, and small industries can rarely benefit from customs and tax rebate privileges. In recognition of this fact, the smallest industries are exempted from some taxes, but the exemption limit is low and certain taxes remain.

The institutional framework essential for promoting SME activity in the Ivory Coast is currently in a state of disarray. The Promotion Center, OPEI, was officially dissolved as an independent entity in June 1980. The Guaranty Fund, after several unsuccessful mergers attempts with other institutions, is now dormant. It has no articles of incorporation, no staff, and no funds. Thus, without a vigorous and government-supported promotion agency and access to government guaranties, the future for SME promotion appears bleak. The situation is compounded by the stricter policies of the Central Bank which are part of the economic stabilization effort. All of these developments have caused a noticeable decrease in the SME activity of CCI, the dominant institution in this field, and have also brought commercial bank interest in financing SME projects to a virtual standstill. Without a government guaranty program or adequate recourse to Central Bank rediscounting, commercial banks have no incentive to take on SME loans.

As of December 31, 1980, the Central Bank reported that overall SME loans outstanding amounted to about 12 billion FCFA. This figure did not include SME figures for CCI, which were not reported, but which if added would increase the overall outstanding figure to about 21 billion FCFA. The total Entente funds disbursed in the Ivory Coast over the life of the AID/Entente Fund Program amount to about 1.3 billion FCFA. While this is not comparative with the 21 billion FCFA figure, it gives some idea of the relatively minor role of the AID/Entente Fund financing for SME activity in the Ivory Coast.

D. The Banking Sector

In addition to the local branch of BCEAO, the Ivory Coast has 21 deposit money banks, seven bank representative offices of foreign banks, and a rapidly growing system of nonbank financial institutions. These include private finance and leasing companies as well as cooperative savings and credit associations.

The deposit money banks include commercial banks as well as specialized institutions, in particular the development banks, which were allowed and encouraged to accept private deposits under the 1975 monetary reforms.

From 1975 to 1980, the total number of banks doubled, reflecting an increase in commercial banks from 5 to 15. Foreign branches represented half of this increase.

Together, the deposit money banks maintain some 250 branches throughout the country. The rapid expansion of this network has enabled the banking system to play an important role in promoting the monetization of the economy.

Four institutions operate as development banks, each with its own traditional specialization. They are the agricultural bank (BNDA); the savings and credit bank (BNEC), which finances housing; CCI, which provides most of the long-term financing for small- and medium-size enterprises; and Banque Ivoirienne de Developpement Industriel, BIDI, the industrial bank. The last two, through which AID's African Enterprise funds are channeled, are discussed in detail below. All but BIDI are majority government owned.

BNDA is the main agricultural credit agency and has a broad mandate to promote rural development. It has in the past served to secure funds to extend credits to the state companies (some of them now defunct) for on-lending to farmers. As part of the government's new agricultural strategy, the BNDA is now playing a role in supporting the growing rural cooperatives (CREPS) for which it acts as a sort of central bank which holds deposits and is the lender of the last resort.

One of the main policy objectives of the 1975 BCEAO reforms was to get the commercial banks more involved in development financing of a long-term nature. In 1975, four commercial banks accounted for almost two-thirds of the total assests of the entire banking system (excluding the BCEAO). The establishment of preferential interest rates for agriculture, small enterprises, and low-income housing, later accompanied by indicative minimum credit allocations, was expected to act as an incentive for increased commercial bank lending to these sectors. For the development banks, the reform anticipated the advisability of insuring themselves against the volatility of deposits originating from government marketing board surpluses by encouraging them to seek out and hold private deposits.

Five years after the reform, the adaptation of all banks to their new roles is still in progress. The commercial banks, whose resources traditionally consist of short-term deposits, find it difficult to finance medium- and long-term investments, particularly as the BCEAO has continued to restrict the credit available through rediscounting. For the development banks, the obstacles to adjustment are more complex. They encompass not only the question of matching the term structure of resources and liabilities but also problems of developing skills to handle the different requirements of short-term documentary credit, as well as purely physical problems such as expanding convenient ground-floor checking facilities.

The facts that (1) guaranties for riskier projects are hard to come by, (2) project evaluation services are weak, (3) profit margins on preferred sector loans at current interest rates are too low, and (4) sufficient private savings are not likely to be forthcoming at presently available terms, all these factors work against the realization of the desired changes.

In the case of small- and medium-size enterprises, this means that credit is likely to be both rationed and insufficient for those fortunate enough to secure it.

1. Development Bank--Banque Ivorienne de Developpement Industrial (BIDI)

Background

BIDI, established in 1964 jointly by the Ivorian government, Chase Manhattan Bank, and Lazard Brothers, is a majority-owned privately owned company that provides long- and medium-term funds to the industrial sector in the Ivory Coast. The International Finance Corporation has a 7 percent investment in the bank's equity. Other important shareholders are Banque Centrale des Etats d'Afrique de l'Ouest (BCEAO), Banque Francaise du Commerce Exterior (BFCE), and Caisse Centrale de Cooperation Economique (CCCE).

As of September 30, 1980, BIDI's assets amounted to 30.3 billion FCFA. Overall arrears amounted to 5.5 percent of the outstanding portfolio. Reserves for loan losses cover 6 percent of the amount of arrears. Earnings in 1980 were 11 million FCFA compared to 233 million FCFA in 1979; the decrease is attributable to large increases in provisions (reserves) and a 30 percent increase in administrative expenses.

In 1980-1981 the financial performance of BIDI was affected by the deep economic recession in Ivory Coast. Approvals have dropped from 12 billion FCFA in 1980 to 8.7 billion in 1981. Arrears have increased from 2.3 billion FCFA to 2.5 billion as of June 30, 1981, and the number of loans in arrears from 11 to 28 (including five hotels), reflecting the problems encountered by a number of smaller projects. Approximately 1 billion FCFA of loans in arrears are guaranteed by the government.

Starting in May 1980, BIDI began to offer commercial banking services to its clients to complement its development lending activities. BIDI is well managed with a staff of 84, 35 of whom are professionals. It has not received any foreign technical assistance since 1975. It obtains foreign loans from the World Bank (one for $8 million and it is currently seeking another), Canada (CIDA), Germany (KFW), France (CCCE), African Development Bank, Arab Development Bank, and similar institutions. Commercial borrowings from large, private banks in Europe, Japan, and the United States are a principal source of funds. The AID funds ($3.5 million) provided under the Entente loans (Tranches I and II) represent a small portion of BIDI's overall foreign resources.

BIDI has made rapid use of the $3.5 million provided under its Reloan Agreement from the Entente (Tranches I and II). All the funds are fully disbursed. BIDI could use additional AID/Entente funds with ease. It mixes Entente money (3.5 percent interest) in the same subloans with other resources, thereby taking advantage of the low Entente interest rate by applying it to as many projects as possible, to offset the higher rates from the bank's more expensive resources. BIDI prefers to do its own in-house promotion work rather than relying on the National Promotion Center (OPEI). Technical assistance needs for each subloan are self-financed by setting aside 2 percent of the interest spread (differences between Entente rate and the rate paid by the subborrower). This is a unique approach, paid for by the client and facilitating subproject success; it precludes the need for BIDI to finance such costs with its own funds or from foreign donors.

BIDI is a large, well-managed bank which uses its Entente loan together with other bank resources to finance large projects. However, BIDI is not structured to assist the smaller African enterprises, as was envisioned under the AID program. Under Tranche I, the average BIDI subloan was $230,000, using $161,500 in AID funds; and under Tranche II the average subloan was $260,000, using $66,000 in AID funds (see Table A-1).

Code 941

Complying with the Code 941 requirements under Tranche II has been a long-outstanding issue, especially for the two Ivory Coast development banks.

Under Tranche I, BIDI was required to use its full $2.5 million Entente loan to finance Code 941 (U.S.) procurement. Based on a REDSO plan, as described in an AID/Washington Action Memorandum (dated January 18, 1977) supported by a cable (Abidjan 11639, dated December 14, 1976), BIDI was authorized by AID/Washington (January 21, 1977) to use $1 million of its Entente loan to finance local costs. Thus, under Tranche I, BIDI financed $1.5 million in Code 941 costs and $1 million in local costs.

Table A-1. Summary of BIDI Subloans

	Number of Loans		
Sector	Tranche I[1]	Tranche II[2]	Total[3]
Industry	9	10	19
Agriculture	1	-	1
Commerce	1	4	5
Crafts	0	-	0
Tourism	0	-	0
Transportation	4	-	4
Total	15	14	29
	Million FCFA		
Average BIDI Loan	53.0 ($230,000)	60.9 ($260,000)	
Average AID Participation	37.1 ($161,500)	15.1 ($66,000)	

[1]556,738,010 FCFA; U.S.$2.5 million
[2]212,000,000 FCFA; U.S.$1 million
[3]768,873,010 FCFA; U.S.$3.5 million--fully disbursed

At the time of the negotiation of BIDI's Reloan Agreement ($1 million) under Tranche II with the Entente, BIDI complained vigorously about the Code 941 requirement and, consequently, no such requirement was contained in the BIDI (or CCI) Reloan Agreements. The AID Loan Agreement for Tranche II, however, requires the financing of a minimum of $1.5 million Code 941 procurement. The Action Memorandum and REDSO cables mentioned above also contained a plan (approved by AID/Washington) for ensuring compliance with the $1.5 million Code 941 condition. As stated in the cable, each participating bank was well aware of the Code 941 requirement. Implementation Letter No. 13 highlighted the procurement condition in detail. The Entente Fund met with all development banks in Lome in July 1976 to explain fully AID regulations and procedures to be followed for complying with the Code 941 requirement. The cable also stressed that the Entente Fund management was available to assist the bank in dealing with AID procurement regulations and the Code 941 requirement. Futher, and more important, the REDSO/Entente plan involved the participation of each bank. Each bank was to receive an initial tranche of $1 million (which BIDI and CCI received) with the provision in each Reloan Agreement with the Entente that as soon as each bank had committed the initial tranche, it would be entitled to receive an automatic increase for an amount equivalent to the value of the subloans financing Code 941 procurement. In this manner, the Entente would retain control of $4 million ($6 million having already been executed to the six participating banks), thus assuring that adequate funds would be available to comply with the requirements for Code 941 procurement.

REDSO should examine the Code 941 requirement; if REDSO feels there is sufficient justification for a Code 941 waiver, then it should submit an appropriate waiver request directly to AID/Washington. Since the Entente and REDSO both view the Code 941 requirement as a long-outstanding constraint on the disbursement of AID funds, it would seem that REDSO should have acted sooner to obtain some Code 941 flexibility, especially in view of the approaching AID loan terminal disbursement date of December 31, 1982.

Lastly, under a $6 million loan from CIDA, BIDI used the full loan to finance Canadian equipment, evidence that BIDI does have subprojects requiring equipment that is similar to U.S. products.

Under Tranche I, four loans are reported delinquent, and under Tranche II, two loans are delinquent. BIDI is working out refinancing arrangements, as required, and loan repayments are anticipated in time. BIDI was the only bank under the program able to prepare an aging of its arrears for the evaluation team. In short, BIDI appears to be effectively handling its arrears under the Entente program.

Status Reports

At the time of this evaluation, BIDI has not submitted regular subloan status reports to the Entente, a requirement of the AID loan. The problem here lies more with the Entente/REDSO than BIDI. BIDI is capable of complying with any donor reporting request, but AID requirements and their importance have not received high REDSO/Entente priority. As a result, the Entente Fund and REDSO do not have a clear picture of the AID-financed subloans. This is a management issue which the Entente and REDSO should rectify.

Impact of Program on BIDI

The impact of the AID/Entente program in financing 29 subprojects totaling $3.5 million over an eight-year period is minimal. The projects would still have been financed if the low-interest AID money had not been available. The AID funds, therefore, did little in the case of BIDI to stimulate African entrepreneurs who had had no previous access to credit. Since BIDI is a sound financial institution, it would seem that the REDSO/Entente should have made a bigger effort, as a requirement of Entente funding, to do something more creative than simply the financing of 29 very large projects. What the program really did for BIDI in the final analysis was to give it a large interest spread and perhaps even some profits, not a justifiable use of concessional AID money.

The Ivory Coast, by far the most sophisticated and developed country of the Entente group, is able to move the Entente AID funds much faster than the other Entente countries. It needs concessional AID money far less than other Entente countries. Section 3.01 (e) of the First Amendment (Tranche II) states that the amount loaned to the Bank(s) in any one country shall not exceed 25 percent of the loan ($10 million). The reason for this condition is that under Tranche I, the Ivory Coast received 46 percent of the AID money, an excessive allocation to a country that is by far the richest of the Entente countries (five times richer per capita than Niger or Upper Volta). As of September 30, 1981, the two Ivory Coast Banks (BIDI and CCI) have disbursed 31 percent of the Tranche II disbursements. With $3.4 million still to be disbursed under Tranche II (as of September 30, 1981), there is little doubt that pressure will be felt to give the Ivory Coast banks additional funds in order to disburse the loan by the terminal disbursement date of December 31, 1982. REDSO must approve additional Entente reloan allocations. The Entente June 30, 1981, annual report states "BIDI and CCI are leading candidates to get futher allocations." The U.S. advisors to the Entente are under pressure to give more Tranche II money to the Ivory Coast.

financing SMEs as a group. It is likely that most of the SME loans are made in the commerce/artisan and industry sectors. Total medium- and long-term loans to these sectors accounted for almost 20 percent of all medium- and long-term loans outstanding in 1979-1980. An additional 5 percent representing vehicle financing for SMEs may be added, for a total SME lending of about 25 percent of CCI's portfolio.

Resources

The planned capital increase is important since CCI's ability to mobilize resources through private savings and term deposits is limited. The 1975 BCEAO reform abolished the distinction between commercial and development banks, requiring all banks to make loans in the preferential sectors (housing, agriculture, SMEs) and encouraging the development banks to increase their resources by attracting private deposits. CCI has not yet been able to expand its activities to include a full range of commercial services, but has instead relied heavily on Central Bank rediscounts, a generally more expensive and more restrictive source of funds.

In 1978-1980, borrowing and deposits accounted for over 80 percent of CCI's loanable resources of 54 million FCFA. Of this amount, deposits amounted to only 8.9 million FCFA, or 15 percent of total resources. By far the largest proportion of deposits were term deposits from two government organizations--the social security fund and Agricultural Price Stabilization Board. Deposits from these government sources are decreasing as a result of the current recession, making competition for private deposits all the more imperative.

In addition to the $2 million in AID funds for small enterprises, CCI has benefited from two IBRD loans totaling $18.2 million (about $9 million outstanding) since 1975. Of the latter, $1.2 million (about $600,000 outstanding) was reserved for technical assistance which has taken the form of both financial training for the staff and an expatriate SME expert to help supervise implementation of projects. Unlike AID's loan, the IBRD funds have been restricted to specific sectors: tailoring, woodworking, banking, and garages. Average investments have been much larger than under the AID loan. Small enterprise credits financed by the IBRD are averaging 36 million FCFA, compared to 1.6 million FCFA and 9.2 million respectively for each of the AID loan tranches. CCI has also received loans from the French CCCE of approximately $6 million. The funds are not restricted to SME financing.

A total of $2 million has been channeled through CCI under the two tranches of the AID/Entente Fund loan, financing a total of 170 projects; 144 of these were financed in the first tranche, resulting in an average loan of 1.6 million FCFA (approximately $7,000) (see Table A-2). Commerce, followed by agriculture-related (principally husking and grinding machinery) and artisan activities accounted for 95 percent of first tranche loans. Approximately 50 percent of all loans were very small--from 200,000 FCFA to 700,000 ($800, to $3,000, $1 = 230 FCFA on average during the period 1974-1976). Many of these were classifed as working capital loans. Two loans were relatively large at 50 million FCFA and 37 million ($200,000 and $160,000) respectively; the first financed part of a joint credit to a sawmill; the second was for a recording company. Both of these large projects have encountered management as well as economic difficulties and have accumulated sizable arrears. The sawmill loan, granted in 1974, was rolled over, and as of March 1981, no payments have yet been made to the bank.

Table A-2. CCI Project Loan Summary

Sector	Tranche I		Tranche II	
	Million FCFA	Number	Million FCFA	Number
Industry	97.9	4	1.8	1
Agriculture	12.0	33	11.7	3
Commerce	77.8	68	98.8	9
Crafts	36.7	35	50.6	6
Tourism	3.7	1	0	0
Transport	10.4	3	77.3	7
Total	238.5	144	240.2	26
Average loan	1.6		9.2	

Under the second tranche, the commerce and transportation sectors have received 15 loans, or just under 60 percent of the 26 loans granted, with artisanal activities accounting for most of the remainder. These loans are much larger on the whole and fall within a much narrower size range: 2 FCFA to 17 million, or $18,000 to $70,000 ($ 1 = 240 FCFA at the time the loans were made in 1975-1977).

Arrears

For both the 1979 and 1980 reporting periods, delinquencies (litigated and doubtful) amounted to approximately 10 percent of total loans outstanding. In 1981, this increased to 14 percent.

Not surprisingly, available data reveal the SME sectors to be the most prone to repayment problems. However, bank attitudes, policies, and incomplete records also contribute to these difficulties. The Entente Fund and REDSO have never received regular current delinquency reports on AID-financed subloans. This is more a reflection of slack REDSO/Entente Fund administration than of the inability of CCI to prepare delinquency reports.

Based on CCI's March 1981 report, delinquencies on principal repayments under the first tranche appear to be appoximately 45 million FCFA, or 20 percent of the principal due. Of the second tranche, delinquencies are 55 million FCFA, or slightly over 30 percent of the principal due. These proportions are not out of line with CCI's overall delinquencies in the commerce/artisan sector, which incorporates most of the bank's SME lending. However, as mentioned above, the method of classification of loan repayments as past due probably underestimates the actual delinquencies. The IBRD reports a delinquency ratio of about 60 percent on CCI's overall SME portfolio.

Although requirements for collateral and guaranties are heavy, the bank frequently loses contact with its clients once a loan has been granted. A plan to create a separate two--person followup unit within the bank has not yet been implemented. The bank's evaluation of loan applications is made more difficult by the fact that it deals with smaller, more risky clients and has insufficient capacity to monitor them adequately or even to provide small borrowers with technical assistance such as help in filling out forms, understanding banking procedures, or even such elementary business practices as setting up an accounting system. Technical assistance by the Entente should have been made available to the bank and its clients to overcome this problem. In theory, the promotion center, OPEI, should be able to provide many of these services in addition to helping enterprises work up acceptable loan proposals to submit to the bank. But in practice, coordination between CCI and OPEI has been unsatisfactory.

The attitude of bank officials to the arrears problems is that CCI is "not in the business of putting people out of business." Particularly in the current squeeze, the bank feels that in many cases, it is a better policy to let businesses in difficulties try to pull themselves together and repay their debts eventually rather than to foreclose and try to acquire assets which may have lost considerable value.

Status Reports

The latest CCI report of AID-financed subloans available to the evaluation team was dated March 31, 1981, and was outdated by six months at the time of the evaluation. No current loan status or delinquency reports were available either at the bank or the Entente.

REDSO should seek compliance with the reporting requirements. No doubt CCI can furnish timely reports (it does to the IBRD), but apparently it does not know what the AID/Entente Fund requirements are.

Table A-3 Development Bank Financial Data
(in million of FCFA)

Item	CCI			BIDI[1]	
	1979	1980	1981	1979	1980
Total Assets	46,654	54,147	53,424	23,154	30,360
Equity	2,098	2,178	1,635	2,791	2,985
Net Income	21	28	(494)	233	11
Loan Portfolio	38,069	42,592	42,523	16,552	20,412
Long-Term Debt	12,960	13,810	15,398	15,994	18,886

[1]1981 Data were not available.

3. Promotion Center--Office de Promotion de l'Enterprise Ivoirienne (OPEI)

The Office de Promotion de l'Enterprise Ivoirienne (OPEI), created in 1969, has experienced serious difficulties over recent years and has received declining government support. It was officially dissolved as an autonomous unit in 1980, and now operates, but ineffectively, as a department in the Ministry of

Plans and Industry. Salaries of its staff were reduced by 35 percent. Its future status remains uncertain.

OPEI relations with the development banks over the years have been poor. There has been little information exchange, and, in addition, the banks appeared to find fault with the project proposals prepared by OPEI. OPEI prepares projects proposals and loan applications and conducts feasibility studies and market surveys. In 1980, 65 project feasibility studies were undertaken, 30 of which were apparently financed (none with AID funds). CCI, the largest banker of SME activity in the Ivory Coast, is dependent on an aggressive promotion agency, but OPEI's problems and ineffectivness have, among other factors, resulted in an appreciable decrease in CCI SME approvals. However, only five or six project proposals prepared by OPEI have been financed under the AID program since 1974. OPEI has no input to development bank decision-making about which line of credit should be used to finance projects submitted by OPEI. It has received technical assistance from IBRD, UNIDO, and France, but not from the AID/Entente program.

4. Guaranty Fund--Fonds de Garantie des Credits Aux Entreprises Ivoiriennes (FGCEI)

FGCEI was established in 1969 by the Government of the Ivory Coast to promote the development of Ivorian enterprises by guaranteeing loans to small- and medium-size indigenous enterprises. The Fund is permitted to guarantee up to 80 percent of loans to majority Ivorian enterprises.

The Fund is currently inoperative. Several reorganizations (mergers with other institutions) were attempted, but all were unsuccessful. Thus, today it has no articles of incorporation, no staff, and no funds. This situation has existed for about a year and a half and has resulted in a substantial decrease in SME approvals of CCI. CCI has been the dominant force in the Ivory Coast for financing SME projects, and obtaining government guaranties is very important for CCI financing. The absence of a government-sponsored guaranty program has had an adverse psychological effect on SME development in the Ivory Coast.

5. Conclusions

The promotion of SME activity in the Ivory Coast is in trouble. CCI is finding that financing a large portfolio of SMEs is too risky and is shifting to shorter term, safer loans. It has only financed 25 subloans in Tranche II compared to 144 in

Tranche I. BIDI stays away from SMEs and for that reason should not be considered for any additional AID/Entente Fund financing unless it adopts an SME program.

Government-sponsored infrastructure is in disarray; an ineffective Promotion Center, no Guaranty Fund, and restrictions on Central Bank rediscounting are all major constraints to SME financing. In this environment, commercial banks are not attracted to SMEs.

II. NIGER

A. Economic Background

Niger is among the world's poorest countries. Development of the country's uranium resources in the mid-70s helped the economy to recover from its decade-long roller coaster ride, begun in the mid-60s during which real GDP suffered a decline of nearly 14 percent in one year (1973). Although real growth has been positive but uneven since then, it has not been sufficient on average to counteract the effects of a rate of population growth estimated to be approximately 2.6 percent per year. All available data clearly underreport the unorganized sector and the illegal trade flows with Nigeria, both of which are highly significant.

Ninety percent of the inhabitants live in rural areas and are primarily dependent on agriculture and livestock raising, although the extent to which they also practice various crafts and supplementary activities is undetermined. After a sharp fall in the years of the Great Sahel Drought in the early 1970s, the number of cattle recently returned to predrought levels. Grain production has also increased in recent years to the point that the country is nearly self-sufficient in foodgrains. But the increase in foodgrain production and government price policies have radically reduced the production of the major cash crops, especially cotton and peanuts. Consequently, most of the country's industry, or at least the organized sector involved in processing agricultural commodities, is close to a standstill. The other larger scale industries are a brewery and soda plant, and a cement factory. Both have done relatively well, but the overall weight of manufacturing has declined in relative terms in National Income Accounts. Exports of uranium play a large role in the economy; they have accounted for 80 percent of export receipts in recent years and 4 percent of the national budget, underwriting much of the nation's development expenditures. Uranium income has accounted for roughly 10 percent of Niger's GDP in recent years. The uranium income and other mining development have permitted some improvement in transport and social infrastructure, and have supported a rapid pace of development in construction and commerce. Electricity consumption, an indicator of industrialization, has been growing at the rate of about 10 percent a year.

Where this leaves the small-scale and unorganized sector is somewhat uncertain. Two estimates say that SMEs account for 5 to 10 percent of GNP, but this may be too low. In 1978, the labor force in the organized sector was 46,000. The population was among the world's youngest, with half of it estimated to be below the age of 15. The total labor force cannot be much less than 2 million or 1.5 million, since few women are in the labor force in the conventional sense. By rough calculations, this suggests that at least 150,000-200,000 people (10 percent of the working-age population) are employed full-time in craft production and small-time trade. In addition, as many as three-fourths of the country's farmers receive supplementary income from nonagricultural activities.

It seems that the SME sector is growing, partially in response to the dynamism of the public investment and agricultural sectors. For example, coal production should start in 1981, phosphates are being exploited, and extensive oil exploration is underway.

Without adequate information of the SME section, it is difficult to determine to what extent the government helps or hinders it. There are a considerable number of price control regulations, and tax collection appears more systematic than in Upper Volta. But most artisanal and small-scale operations should escape most of both charges. The minimum income for income tax purposes is over 100,000 FCFA a year and not until 300,000 FCFA is the effect of the tax really significant. Artisans can also deduct half their net earnings. The value added tax is probably unenforceable on artisan enterprises. The government itself estimates that it only collects 70 percent of the income tax due, getting almost nothing from the unorganized sector. The government has recently abolished the minimum tax and decided to stop attempting to collect from farmers, which should probably protect most rural artisans as well. On the other hand, it still seems difficult for small enterprises to formally qualify for the exemptions provided under the investment code. There is a property tax, but new construction is exempt for the first several years; factories are assessed at half value. In order to get bank credit, borrowers must produce a tax receipt and have paid a government registration fee.

The IMF characterizes the trade regime as "liberal." Smuggling is quite extensive. As far as assistance is concerned, the government has a very active program of training for artisans, especially in the handicrafts area (run in collaboration with the National Museum). The newly formed Office de Promotion de l'Entreprise Nigerienne (OPEN) is involved in a number of development efforts aimed at helping a small number of entrepreneurs, particularly certain designated businesses such as bakeries, to prepare dossiers for bank financing and to start new enterprises. It has also started some training classes and an extension system focused on account keeping. The banks seem to provide a fair amount of credit to the larger small-scale enterprises.

B. The Banking Sector

The banking sector in Niger is quite large. There is the Banque Arabe-Libyenne-Nigerienne pour le Commerce Exterieur et le Developpement (BALINEX), the Banque de Developpement de la Republique du Niger (BDRN), the Banque Internationale pour le Commerce et l'Industrie du Niger (BICIN), the Banque Internationale pour le Niger (BIPN), the Credit du Niger (CN), Citibank, the Caisse Nationale de Credit Agricole (CNCA), and financing institutions, SUNICA (automobile credit), and so on.

However, SMEs really have only one place to turn for investment credit assistance, the BDRN, since the only credit offered by the commercial banks to SMEs is reserved for well-established, low-risk firms who need short-term financing (less than 2 years). In the agricultural sector, which is a high government priority, the CNCA provides virtually all credit awarded to small farmers, while commercial banks become involved in larger loans to agricultural cooperatives. BIPN, BICIN, and Citibank are entirely owned by foreigners.

Under BCEAO jurisdiction, the banks providing loans to SMEs and farmers offer a base interest rate of 11 percent (rediscounted by BCEAO at 8 percent). The BDRN apparently adds charges of only a few percentage points to the base interest rate, while commercial banks find ways to add other significant charges based on perceived loan risk. Thus, competition between the commercial banks and the BDRN is minimal, because the commercial (international) banks appeal to larger and international firms, whereas BDRN is the sole access for SMEs.

For the past 12 months, the BCEAO has refused to rediscount any SME loans, which has severely limited bank credit to SMEs, ostensibly because the Association Professionelle des Banques du Niger has not been accurately compiling and reporting total credit to small-scale borrowers (those borrowing less than 30 million FCFA). The problem is compounded by the fact that borrowers register under different names at different banks.

1. Development Bank--Banque de Developpement de la Republique du Niger (BDRN)

The Banque de Developpement de la Republique du Niger (BDRN) was founded in 1961. Its board includes six Nigerian public and one private sector representatives, plus representatives of the Societe Tunisienne de Banque, the German and French aid agencies, the Central Bank, and the Credit Lyonnais. Total assets as of September 30, 1980, were 58.5 billion FCFA, and its profits for the year were 986 million FCFA. BDRN accounts for 64 percent of the deposits and 58.5 percent of the bank credit extended in the economy. It has received loans from the African Development Bank; the French aid agency CCCE; the German aid agency, KFW; the World Bank; and USAID. It has borrowed on commercial overseas markets in collaboration with a consortium of international banks headed by Midland Bank. The Bank has 533 employees and branches in the major centers of the country.

Of its long- and medium-term credit of 21 billion FCFA, 41 percent went to mining and energy enterprises, 34 percent to construction and transportation, and the rest to a variety of enterprises. It has equity shares in many of the country's larger enterprises. BDRN had 8 billion FCFA in credit outstanding to SMEs as of April 1981, compared to roughly 1 billion FCFA for all other financial institutions combined. It received a $1 million loan under AID Tranche I, financing 51 subloans (226 million FCFA), and a $2 million loan under Tranche II, which is only partially disbursed ($1.3 million), financing 32 subloans (291 million FCFA) as of September 30, 1981. In April 1981, overall SMEs financed by all BDRN resources numbered 1,900 and totaled 8 billion FCFA. Thus, the AID portion which financed 83 subloans for a total of 517 million FCFA is minimal.

The bank poses some stern requirements before enterprises are granted loans. The applicant proprietor must produce a loan guaranty or a cosigner, "bien connu et solvable" (well known and solvent); provide 20 percent of the equity himself; keep an account at the BDRN; register with the tax, social security, and other regulatory authorities; and produce an acceptable project description. All major projects must be approved at the head office in Niamey, since the branches only have authority to sanction short-term loans of less than 3 million FCFA. On the other hand, once the requirements are met, the banking system works well; there seems to be no need for bribes or friends in high places to secure a loan. Entente revolving funds are kept in a separate account and are reloaned following the requirements established for the original line of credit.

The bank makes considerable provision for doubtful accounts. This is perhaps because the department for the recovery of defaulted loans, while seeming to have a recovery policy, has shown little ability or desire to effectively pursue borrowers in default. The situation may well be compounded, as was observed by a representative of one of the commercial banks, by the fact that in practice the financial return on a legal seizure and sale of a guaranteed loan, buildings, and machinery, can often be quite small because of the limited local market for such property. Figures gathered on Entente Fund loans issued by the BDRN show that the sum of overdue, defaulted, and written off loans is only about 10 percent of the outstanding balance of its Entente Fund loans, the best performance in the AID/Entente Fund Program.

In general, the BDRN appears to be well organized, even if technically deficient in certain respects. If basic administrative problems exist in the bank, they are not evident. Problems that are most evident are lack of clarity and completeness of loan dossiers, lack of technical followup of entrepreneurs, some confusion among summary repayment data provided to the Entente Fund, lack of pursuit of clients in default, and different loan identification numbers used for the same loan in different departments of the bank. Employees are capable and very helpful. It would be useful for an Entente Fund representative, after becoming familiar with the loan procedures of this bank, to meet with the specific responsible individuals and spell out exactly what periodic loan data are needed to satisfy AID report requirements. Expatriate employees are few--four in dossier preparation and evaluation, and one each in data analysis and accounting.

Table A-4. BDRN Financial Data
(in millions of FCFA)

Item	1979	1980
Total Assets	44,838	58,554
Equity	6,613	7,634
Net Income	764	986
Loan Portfolio	10,102	13,256
Long-Term Debt	11,957	15,629

The overall impact of the Entente Fund loans on the BDRN itself was quite significant. The Managing Director told us how the Entente Fund had introduced the bank to small-enterprise lending and helped it develop procedures which are now applied to a much larger SME portfolio.

2. Promotion Center--OPEN

OPEN is young (created in 1979) has a staff of 40 employees, and seems dynamic and well organized. Its relations with BDRN appear to be good. Coordination between the two institutions is frequent; regular meetings are held every two weeks between technicians and once a month between directors. A standard loan application format has been agreed upon. OPEN concentrates its promotion activities on one or two sectors each year, and actively looks for entrepreneurs in these sectors. It is not known how many proposals prepared by OPEN were financed under the AID/Entente Fund program, but in 1979-1980 its feasibility studies and loan applications resulted in the financing of 20 factories for a total investment of 3 billion FCFA.

3. Guaranty Fund

The Guaranty Fund (Fonds de Garantie) in Niger has only recently become operative, and it is too early to judge how effective it will be in promoting SMEs.

III. UPPER VOLTA

A. Economic Background

Upper Volta is among the poorest and the least industrialized countries in the world. The economy is based on rain-fed agriculture, and year-to-year variations are quite large. On the basis of figures submitted by the country's statistical office, the IMF estimates that 35 percent of income and more than 90 percent of the domestic labor force are involved in agriculture, although a part of that labor force practices ancillary occupations in the dry season (as much as 75 percent, according to one estimate).

A large number of Voltaics temporarily emigrate to find work, particularly to the Ivory Coast (300,000 of 5.6 million according to the 1975 census, plus perhaps another 250,000 on a seasonal basis), and their remittances account for a significant part of the country's foreign exchange earnings. The remittances totaled 13 billion FCFA versus 23 billion FCFA of officially recorded export earnings and 21 billion of intergovernmental grants in 1977. The Ivory Coast is Upper Volta's largest customer, accounting in recent years for 40 to 50 percent of its exports; it is also a large source of imports. Upper Volta is thus dependent on the state of the much larger Ivorian economy, which has just gone through two to three difficult years. The expected recovery in the Ivory Coast should rebound favorably in Upper Volta.

The industrial sector is small. Of an urban labor force of 300,000 in 1975, 7,600 were employed in 119 larger scale manufacturing enterprises, six of which accounted for three--fourths of organized manufacturing turnover. In Ouagadougou, the capital, with slightly less than half the country's urban population, 10,000 artisanal enterprises are estimated to exist, perhaps 2,000 of them with paid employees, and a large number of informal mercantile enterprises exist as well. The main market in Ouagadougou seems to contain from 500 to 1,000 enterprises. Bobo-Dioulasso, the country's second largest city with perhaps half of Ouagadougou's population, has an even higher proportional concentration of commerce and industry. All organized enterprises must be 51 percent Voltaic owned; of the largest 10, accounting for 80 percent of organized production, two are state owned.

It is quite difficult to determine the growth rate in industry or commerce. A perceptible slowdown appears to have occurred, at least in the organized sector, in 1978-1979, connected with both domestic political uncertainties and the effects of the worldwide recession, particularly as radiated through the Ivory Coast. Real growth of industrial production in 1978, the last year for which figures are available, was estimated by the IMF at 3.7 percent (at a 1.7 percent population growth rate). The IMF reports a "sharp slow-down" in world cotton prices, government payment delays (caused in turn by tax collection problems), and competition from unofficial imports. Still, the persisting 20 percent annual increase in electricity consumption, the smaller increases in rail and airplane freight, and an estimated 6 percent annual increase in number of Ouagadougou artisanal enterprises, suggest some growth in the unorganized sector that may not be captured by industrial production figures. Building and construction have benefited from continuing investment. Unlike the situation in Niger, supplies of primary products (except groundnuts) to processing industries seem to have recovered from the bad years of the early 1970s.

The government has an extensive system of price controls, small business taxes, licensing requirements, and minimum wages, which in theory might be obstacles to entrepreneurial development, especially for small enterprises not covered by the exemptions in the investment code. But as a practical matter, these are all so poorly enforced that smaller enterprises are not handicapped by them. Sporadic fines for price control violations and sporadic customs seizures seem accepted as a normal and relatively nominal business expense. The government monopolies for marketing agricultural produce and meat (OFNACER, Caisse de Stabilisation, ONERA) and the resulting price controls are hurting the private traders.

B. The Banking Sector

There are presently three banks in Upper Volta, all of which work with SMEs--the Banque Nationale de Developpement (BND); the Banque Internationale pour le Commerce, l'Industrie, et l'Agriculture (BICIA); and the Banque Internationale des Voltas (BIV). All are at least 51 percent owned by the government of Upper Volta. In addition, as of August 1980, the Caisse Nationale de Credit Agricole (CNCA) has begun to assist SMEs in the agricultural sector.

Coordination of banking operations is provided by the local branch of the BCEAO, whose ability to verify compliance with its regulations is sometimes limited, although its staff appears quite competent. For example, at the end of each month, the banks are required to report to the BCEAO all SME loans granted to enterprises with 5 to 30 million FCFA credit outstanding. But on inquiry, it turns out that the BICIA only reports on loans to enterprises with 10 to 30 million FCFA outstanding.

Total lending to SMEs by all banks was reported to be 9 billion FCFA or roughly 18 percent of all bank credit. Over the years, a very small proportion of this has come from the Entente Fund credit line.

It is commonly believed that many entrepreneurs who need credit fail to approach the banks because of the onerous bank requirements that the entrepreneur pay taxes regularly, register as an enterprise, open an account at the bank, take out a life insurance policy (not required by BND), and provide substantial collateral (direct deductions from an individual's salary deposits are permitted only for BND). In addition, all banks require certain documentation of the projected use of loan funds, although this makes little practical sense considering the amount of collateral and guaranties required.

Interest rates charged are very similar for all banks. Preferential rates for SMEs (rediscounted at 8 percent by the

BCEAO) are available to enterprises that are at least 51 percent African owned, primarily those that are African managed, with less than 30 million FCFA total credit outstanding. In practice, broad interpretation, particularly of management criteria, is permitted. The loans may be made to SMEs at a base rate of up to 11 percent. Normal interest rates are permitted up to 15.5 percent base rate, and rediscounted by the BCEAO at 10.5 percent. The BND claims to add very few charges to the base rate, but sources confirm that mortgage charges, taxes, account and overdraw charges, and so on can greatly increase the effective interest rate--for the BND as well as the other banks.

1. Development Bank--Banque Nationale de Developpement (BND)

The Bank Nationale de Developpement (BND) was created in 1962. The Upper Volta government owns 54.65 percent of the shares; other owners are the Central Bank (BCEAO), a commodity price stabilization fund (CSP), a national savings institution (CNDI), and the French and German foreign aid funds (CCCE and DEG). The Board of Directors has seven government directors and one each from the other shareholders (two of which are parastatal). The executive committee includes the local director of the Central Bank.

The accounts of the bank are not available on a current basis and, in any case, might be highly inaccurate. The bank reported its total assets ("bilan") as 22.6 billion FCFA at the end of September 1979. Net profit in 1979 was reported as 12 million FCFA, though informal estimates put losses at close to 400 million FCFA. In the period 1962-1979, the BND made 49 billion FCFA loans to 90,000 borrowers--4 billion FCFA to 2,000 borrowers in 1978-1979 alone. Of the bank's loans over its history, roughly one-third have gone to finance housing and consumer durables, one-third to commerce and industry, and the remainder to agriculture. The bank is also a shareholder in the larger firms in Upper Volta.

Table A-5. BND Financial Data
(in millions of FCFA)

Item	1979
Total Assets	22,571
Equity	2,374
Net Income	(388)
Loan Portfolio	18,187
Long-Term Debt	5,815

The bank has a network of seven branches, and 248 employees including four expatriates. Branch loans over 3 million FCFA must be approved at headquarters. BND has received concessional financing from the World Bank, BOAD, and the German foreign assistance agency (KFW), in addition to AID. Of 1.3 billion FCFA of these funds which have been available to the BND since 1978, only 250 million FCFA have been committed.

Under the Tranche I AID loan, BND received $1 million and financed 18 projects. Under Tranche II, BND again was allocated $1 million, but as of September 30, 1981, had only financed four projects (though at least 10 more were well into negotiation); $138,188 had been disbursed as of that date.

Poor management seems to be endemic, and the administrative and technical weaknesses at the BND are easy to identify. Loan dossiers seem a mess, and many were not made available to the evaluation team. The new director was not available to meet with the team. Coordination between OPEV (the promotional office) and BND is weak. Discrepancies can be noted between different sources of loan data. It appears that loan activity--Entente Fund as well as other lines of credit--has been minimal for the past several years, primarily because of the BND's lack of ability to account accurately for repayments, to follow overdue accounts, and otherwise to administer a lending program. It is also significant that the BND claims to have no funds of its own to lend to SMEs; nor has it considered the possibility of rediscounting such loans with BCEAO.

The Head of the Service for Recovery of Overdue Accounts at the BND claims that personnel and precedures are now in place to pursue an active loan program that will exhaust the remaining $1 million Entente Fund line of credit (Tranche II) by the new terminal disbursement date of December 31, 1982. However, it is clear that overdue accounts are now being pursued, following a fairly well-defined procedure, but the claimed improvements have yet to be verified by operational results. It will take time before confidence in the ability of the BND to handle its funds returns.

The requirements for the purchase of goods from Code 941 and 935 countries where included in the Reloan Agreement between the Entente Fund and the BND, but there are no records regarding compliance. Though BND loan repayments on its dues to the Entente Fund are current, its reports on the status of Entente Fund loans (using AID funds) have been submitted long after due dates, are not currently up to date, and contain inaccuracies. The Entente Fund, therefore, has been unable to report accurately to REDSO on the use of AID funds. The best delinquency estimate that can be drawn from these records indicates that of the about 270 million FCFA disbursed under the Entente Fund line of credit, more than 50 percent is in arrears. The fact that the basic Entente Fund line of credit and revolving funds are not kept in separate accounts (as required under the Loan Agreement) further complicates the task of providing accurate reports to the Entente Fund project office.

Aware of the need for technical assistance to local enterprises, BND managers have declared their intention to create a technical assistance unit within the bank. However, qualified Voltaic personnel are difficult to find; in view of the administrative weaknesses of the BND, this makes it unlikely that such a unit will be successful. At the time of the evaluation, four expatriate technical experts were engaged at the BND.

2. Promotion Center--OPEV

There is little cooperation between the Promotion Center and the development bank. However, OPEV is active, and it does conduct training courses for businesspeople which are well attended, both in the capital and in several rural towns.

3. The Guaranty Fund (Fonds de Garantie)

The Guaranty Fund put at the disposal of the BND by the government has not been used since the beginning of 1980 because of the exhaustion of its authorized coverage. It has had the same administrative problems as the BND, and has therefore been unable to serve its stated purpose.

C. Conclusion

The REDSO/Entente Fund should take a good look at BND to determine whether it is sufficiently viable to remain in the Entente Fund program. An AID audit should be taken of the AID funds channeled through BND under the Entente Fund program.

IV. TOGO

A. Economic Background

Togo is the smallest of the Entente countries both in size and population. The country covers approximately 22,000 square miles (about the size of West Virginia). The estimated population of 2.5 million is growing at an annual rate of 2.2 percent and is 85 percent rural. Togo's per capita income of approximately $400 places it close to the borderline between lower and middle income countries by the World Bank's definition. While real GDP grew at an average rate of 2.8 percent between 1970 and 1980, year-to-year growth has been sporadic because of the effect of variable weather conditions on agriculture production and because of irregular industrial activity. Since 1978 the economy has been at a virtual standstill.

Agriculture is the predominant economic activity. In addition to the traditional food crops--cassava, yams, and food grains--Togo produces cocoa, coffee, palm kernels, and cotton for export. In 1979, 35 percent of export earnings came from these crops.

Food self-sufficiency became a realized goal in the late 1970s, following a program of improved extension services from small-scale farmers and increased use of subsidized inputs such as fertilizer and insecticides. Togo now is able to export part of its corn and sorghum crops, while it continues to import wheat and other nonlocal foods. Increased livestock production is being sought through improved veterinary services for cattle as well as emphasis on pork and poultry raising.

In 1979, phosphate mining contributed approximately 8 percent to GDP, and exports accounted for 37 percent of the total value of exports. Togo's current balance of payments difficulties are partly attributable to a short-lived boom in phosphate prices in 1974-1975, which led to sizable commitments for infrastructure and other investment expenditures. The price per ton of phosphates decreased by almost 50 percent between 1975 and 1976, while production was increasing by 55 percent. In 1980, production was reported to be at full capacity, exceeding 1974 levels by approximately 15 percent; however, as a result of slow recovery of prices, the total value of production was only 70 percent of the 1974 level of 38 billion FCFA.

A joint venture between the governments of Togo, Ghana, and Ivory Coast to produce clinker to supply raw materials for the local cement industry came on-stream in 1980. Operating losses are expected for several years.

The manufacturing sector in Togo is small (5 percent of GDP in 1979) and to a large extent oriented toward import substitution. State-owned large production units include an oil refinery which transforms Nigerian crude into a high quality export product. A state-owned steel mill began operating in 1979 and sells its output of iron rods to Upper Volta, Niger, and Benin in addition to servicing the domestic market. Cement production and the textile industry are among the older manufacturing units. Output of cement has more than doubled since 1977, reaching nearly 330,000 tons in 1979. Textiles, however, have fluctuated, with net production decreasing by 30 percent between 1978 and 1979 due to machinery breakdowns; the value of textile exports apparently increased by 18 percent over the same period.

Transformation of agricultural products on a large scale is not taking place, although some agroindustry projects may be developed under the Fourth Development Plan. The strategy of industrialization spearheaded by state enterprises has been a strain on the economy. Poor feasibility assessments, cost overruns, lack of trained personnel, and inefficient operations have led to low capacity utilization and high unit costs.

Information on industrial enterprises sponsored by the SME promotion center and operating in two industrial zones indicates that there are approximately 30 predominantly indigenous private firms of small size, defined by a level of capitalization between 2 and 30 million FCFA. Less than half a dozen others fall in the 90 to 500 million FCFA range, and are generally mixed enterprises.

Small-scale activities include bakeries, clothing production, small metal goods, printing, paper goods, plastics, woodworking and repairs. The majority of current investments range from 7 million FCFA to 50 million, with five falling between 80 and 200 million. A half dozen of these firms have received loans through BTD under the African Enterprises program. Employment per firm in most cases ranges from 10 to 35 employees.

Artisans working in traditional crafts are encouraged through several regional centers. Little assistance seems to be available to those working in services.

As a result of its location on east-west trading routes between Nigeria and Ivory Coast/Ghana, and in the corridor for shipment of products to and from the Sahel region to the north, Togo has always enjoyed intense commercial activity. The contribution of this sector to GDP was 20 percent in 1979. The cloth trade, dominated by a small group of well-connected women, is one of the better known activities. Trading in imported, processed foodstuffs and small luxury items (watches, small electronic equipment) is also important. The openness of the economy and its membership in the hard-currency franc zone, as well as its proximity to economically hard-pressed Ghana and inflation-ridden Nigeria, are conducive to a high volume of illegal activity.

Togo has had a series of five-year Economic and Social Development Plans since 1966. Early emphasis was oriented to infrastructure as a necessary precondition for rapid and diversified future growth. The Third Plan (1976-1980), prepared during the period of the phosphate boom, adopted ambitious investment objectives rather than the more directly productive industrial and agricultural projects.

A major deficiency in the planning process is that the plans constitute only a broad framework within which the availability of and constraints imposed on financing projects (particularly from foreign sources) often dictate the actual sectoral allocation of investment. Execution of plans thus becomes haphazard, and projects may be promoted in a disconnected fashion.

The Third Plan in particular saw a much larger than projected share of expenditures devoted to further infrastructure--railroad and port facility improvements connected with the cement project, completion of an international airport in the north, improvement of the north-south road link. In addition, several large government-owned hotel complexes, not included in the Plan, were built in the capital, creating an excess capacity which is a severe drain on the budget. Agro-industrial and rural development projects were cancelled or sharply curtailed, while industry accounted for approximately 40 percent of total financing, against a planned share of less than 33 percent.

Government policy toward the SME sector in the context of both former and current (1981-1985) development plans is ambivalent at best. While UMOA credit policies accord SMEs preferential treatment through Central Bank rediscounting, actual government activities in SME promotion are not well organized. The institutions set up to handle SME matters--promotion center, special guaranty fund, development banks--have no coordinating mechanism to help them work together. Provisions of the Investment Code which purport to favor SMEs are, in fact, not available to the majority of firms at the lower end of the spectrum due to restrictive eligibility conditions. Small indigenous firms are highly vulnerable to competition from imported goods.

B. Banking System

In addition to the Central Bank, Togo's banking system consists of six commercial banks and three development finance institutions.

The commercial banks are the Union Togolaise de Banques (UTB), Banque Togolaise de Credit a l'Industrie (BTCI), Banque

Internationale de l'Afrique l'Ouest (BIAO), Banque Arabe Libyo-Togolaise d'Exportation (BALTEX), Banque Commerciale du Ghana (BCG), and Banque de Credit et Commerce International (BCCI). Of the three development institutions, two have had commercial departments since a banking reorganization in 1975. They are the Banque Togolaise de Developpement (BTD) and Caisse Nationale de Credit Agricole (CNCA). The other institution, Societe Nationale d'Investissement, does not accept deposits, and, in addition to making medium-term loans (to both SMEs and larger enterprises), manages the national debt and two special funds: the national guaranty fund for SMEs and an interest subsidy fund, created in 1979, which has not yet been used.

All the banks are required to abide by the BCEAO's regulations on interest rate ceilings. They are also all enjoined by the National Credit Committee to devote a portion of their resources to the priority sectors of low-income housing, agriculture, and SMEs.

While the commercial banks have been able to refuse many private development projects, BTD and CNCA have been put in a position of scrambling for deposits to increase their resources, and also of relying more heavily on expensive Central Bank rediscounts. While commercial banks as a group currently have an excess of short-term funds, the development banks are suffering from a serious shortage of medium-term resources.

The targets for low-income housing and agriculture in 1980 were set at a minimum of 5 percent and 10 percent of total loans; industrial (productive) SMEs, had a minimum of 5 percent (of a total ceiling of 30 percent for the industrial sector as a whole), and commercial SMEs, a maximum of 10 percent (or one-half of the allocation for commerce).

Implementation of the targets fell below expectations in all but the last category (commercial SMEs) in 1980. In housing, agriculture, and industrial SMEs, the proportion of total credit was below that achieved in 1979. Meanwhile, credits to larger industries, commercial firms, and construction were much in excess of their targets. Credit to large industry in particular grew by 50 percent.

It should be noted that these percentages are applied to all <u>reported</u> loans of financial institutions (loans above 5 million FCFA), and thus understate the actual amounts spent in each sector. For both 1979 and 1980, however, loans above 5 million FCFA represent 75 percent and 83 percent of <u>total credit</u> to the nongovernment sector (private and public or semi-public enterprises). The balance of total credit in each year consists largely of consumer loans and working capital for SMEs. Of the 1979 level of reported loans of 42 million FCFA, approximately 65 percent went to the private and mixed sectors.

Due to the high level of competition within the banking system, interest rates charged by banks seem to conform fairly closely with BCEAO regulations covering basic rates (normal = 10.5 percent, preferential = 8.0 percent) and margins (up to three points above the basic rate). In principle, this indicates a rate of 11 percent for the preferred sectors--low-income housing, agriculture, and SMEs. These are also among the most risky sectors, and the banks must deal with this situation by requiring a high level of guaranties and insurance.

BTD and CNCA require their clients to purchase life insurance privately for loans above 5 million FCFA and 1 million, respectively. For loans below these amounts, each bank has established its own in-house insurance fund. BTD's rate is 0.75 percent and CNCA's is 1 percent of the face value of the loan. Although Central Bank directives are explicit in stating that individual bank margins must include all charges and commissions, the BTD in particular considers that its own insurance is a substitute for a commercial service and should be added to the allowed margin.

For large, long-term credits a commitment fee varying from between 0.25 percent to 2.0 percent may be charged. BTD also passes on to its clients commitment fees for all loans made on lines of credit from donors, such as the ADB, which include such commitment fees.

1. Development Bank--Banque Togolaise de Developpement (BTD)

The authorized development bank for financing SME entrepreneurs in Togo under the AID/Entente program is the BTD. It was created in 1967 when it took over the functions of Credit Togolais, which had existed since 1957. Initially the BTD focused primarily on real estate and consumer loans. In 1970 it shifted its emphasis more to that of a development bank, extending medium- and long-term credit for development projects in the public and private sectors. The bank also maintains checking and savings accounts for its clients.

BTD has a capital of 1 billion FCFA, 40 percent of which is owned by the government. The remaining 60 percent is owned 10 percent each by six shareholders: Banque Centrale des Etats de l'Afrique Occidentale (BCEAO), Caisse Nationale de Securite Sociale (CNSS), Banque Internationale de l'Afrique Occidentale (BIAO), Banque Togolaise pour le Commerce et l'Industrie (BICI), Union Togolaise de Banques (UTB), DEG (West Germany), and the Banque Ouest Africaine de Developpement (BOAD), the regional development bank headquartered in Lome.

BTD's 10-member board is chaired by Togo's Minister of Finance. The ongoing operations of the bank are delegated to the Director General who supervises the seven departments of the bank: real estate, credit, and consumer loans; small- and medium-size enterprise and industrial loans; marketing; accounting and financial management; loan collection; administration; and internal audit. BTD has five branches throughout the country, and a staff of 166 employees.

Financial Condition

Over the years, the bank has suffered acute financial and management problems and its financial condition, as reported by Arthur Andersen in its report on the bank as of September 30, 1980 (latest figures), is precarious. Its capital is virtually depleted. It suffered a loss of 102.6 million FCFA ($3.7 million) in 1980. It has very little liquidity, relying excessively on Central Bank borrowing and limited external borrowing to maintain operations. Management problems have contributed to a serious morale problem. Loan approvals have declined sharply in recent years, decreasing from 2.8 billion FCFA in 1975-1976 to 1.1 billion FCFA in 1979-1980, a drop of 61 percent. The financing of small- and medium-size enterprise loans decreased in 1980. The BTD attributes the decline in loan activity to shortage of loanable resources, stiffer rediscount requirements of the BCEAO, stringent donor loan conditions, and the lack of bankable projects. To remain solvent the bank must look to the government for a new and large injection of capital. It is estimated that new capital of 500 to 800 million FCFA is required ($1.8 to $2.8 million). The accumulated losses will reportedly absorb about 75 percent of the bank's capital.

2. External Resources

Total external commitments available from several donors to the BTD for financing SME loans are shown in Table A-6.

Table A-6. Donor Commitments to BTD for SME Loans

Donor	Equivalent in U.S.$ (in thousands)
U.S.--AID/Entente	$ 3,500
France--CCEE	336
African Development Bank (ADB)	3,789
Germany--KFW	850
Total	$ 8,475

The $3.5 million in loans it receives from the Entente Fund accounts for 41 percent of BTD's external resources for financing SME loans.

Policy Procedures

The BTD has taken advantage of a Central Bank directive allowing development banks to engage in commercial operations. Since 1977, loan applicants have been required to open an account with the bank as a prerequisite to receiving credit. The minimum deposit is 25,000 FCFA for salaried workers and 50,000 FCFA for individuals in business activities. Other conditions for borrowers include payment of an application fee of 1,000 FCFA and the attachment of 65 percent of the individual's government salary in the event of nonpayment. If the borrower does not work for the government, he must provide a cosigner to the loan, preferably a government employee; a cosigner working in the same enterprise as the applicant is not acceptable. Alternatively, collateral in the form of real estate assets (mortgages) can be pledged to secure the loans. For small consumer loans, a flat charge of 3 percent is credited to the bank's guaranty (e.g., bad debt reserve) fund. Clients are also required to secure their loans with life insurance. A flat charge of 0.75 percent is made on loans up to 5 million FCFA for this purpose. For loans over this amount, clients obtain life insurance coverage from private sources. The BTD passes on to its clients commitment fees on donor loans such as those of the African Development Bank and the World Bank.

A late charge of 5 percent is assessed on delinquent payments. A loan is classified as delinquent when no payments have been made for six consecutive months or irregular and insufficient payments have been made over a 12-month period. At this point, charges increase to 10 percent of the amount due. When the client is unable to make payments, the cosigner is held responsible for all debts incurred. Recourse to legal action may be taken after a loan has been delinquent for one year. Foreclosure procedures are lengthy, however, taking from one to four years and the bank frequently finds it to be more in its own interest to take a conciliatory attitude, particularly in the case of a productive investment where it may be more worthwhile to accept small or sporadic payments rather than to attempt to sell the enterprise at a loss. In the event of death or default on small consumer credits, the bank can recover 100 percent of its investment through its insurance and guaranty resources, provided such resources have not been depleted.

Technical Assistance

One expatriate advisor is now providing assistance to the SME and Industrial Loan Development department. He is financed by the DEG, a West German government agency which owns 10 percent of the bank's capital. The Entente Fund has provided only limited technical assistance on project-specific problems on an irregular basis and at the request of the bank. The latest such assistance was provided to a client in late 1979. No assistance has focused on the high delinquency rate affecting the AID-financed subloans, an area demanding immediate attention, or on the inability of the bank to prepare current and complete status reports for projects financed under the African Enterprises program.

Observations and Conclusions

As a result of an inadequate reporting system, a serious information gap exists on the status and details of the AID-financed subloans. Even after eight years of experience, the BTD does not have accurate books and records reflecting the number and status of Entente subloans. There is little information, and no current reports on troublesome and delinquent loans. The Entente records of the subloans financed by BTD with AID funds do not reconcile with the BTD records. The Entente semiannual reports to REDSO do not comply with AID reporting requirements as set out in Implementation Letter No. 13. As a result of its extremely precarious financial condition, BTD is probably not now a viable institution, and AID should evaluate whether it is qualified to perform under the Entente program. The Entente and AID should take immediate steps to obtain current status reports from the BTD on a regular basis. This should be a joint, collaborative effort to ensure completion of the reports. The BTD needs assistance which the Entente should provide; AID must also intervene if it is to know how its funds are being used.

The BTD has access to a computer, but it is not used properly as a management tool. All bank loans are currently programmed together. To make a report on the AID/Entente program, the bank must go through the printouts for all loans to pick out the ones that are AID financed. This is a time-consuming task, but it can and should be done. The evaluation team suggests that the loans be programmed by donor and that the Entente Fund loans be separated into Tranches I and II. REDSO/Entente should provide computer assistance to BTD to ensure a meaningful reporting system.

2. Caisse Nationale de Credit Agricole (CNCA)

The BTD has made informal arrangements with CNCA, the government agricultural bank, to finance agricultural projects to comply with the AID requirement to finance projects within the agriculture/rural development/nutrition sectors. CNCA has banking competence in rural areas, and, in theory, entering into arrangements with an agricultural bank to achieve compliance with AID requirements has merit. However, no formal agreement has been executed between the two institutions at the time of our evaluation. CNCA has received the equivalent of 116 million FCFA ($465,000) in AID funds from the BTD to finance around 46 projects, and reportedly is paying 4-percent interest on this "loan" (verbal agreement) to BTD. Because a repayment schedule has not been set, the BTD and the Entente are in a vulnerable position.

This arrangement is irregular and should be reviewed, approved, and formalized by REDSO and the Entente. Any such relending arrangement should have been reviewed and approved by REDSO and the Entente prior to the financing of any CNCA loans. The BTD has only limited current information on the repayment status of the loans made by CNCA, the extent of delinquencies, the effectiveness of collection practices, CNCA's performance in financing these agricultural projects, or even the terms of such financing. Without an agreement, CNCA's obligation to submit periodic status reports is not spelled out, thereby compounding the reporting issue.

3. Impact of the Programs on BTD

The Project Paper (May 1975) for Tranche II ($10 million) stated that the BTD was in sound financial condition with profitable operations. It reported that the bank's management was competent and its organization structure adequate to handle the bank's program. It also reported that the bank's experience with African enterprises was limited, requiring excessive and time-consuming guaranties. It was expected, however, that the experience gained under Tranche I would give the bank confidence and add to its self-sufficiency in the promotion of African enterprises. Unfortunately, this has not taken place.

Over the past six years, the bank's financial position has deteriorated, requiring new capital inputs from the government. The bank also suffers from acute management problems. It has had difficulties in financing and managing its SME loans. After eight years of experience, the bank does not have a sufficiently trained staff or the management capacity to finance the volume of African enterprises required or expected under the Entente loans ($2.5 million). It seems to be too large a volume of loans for BTD to handle in light of its problems and the high risk of the loans. The expectations that the BTD could handle a large SME portfolio were overoptimistic. The Entente should have matched its loan disbursements with a continuous, well-integrated technical assistance program, aimed at helping both the bank and its SME clients.

4. Technical Assistance

As stated above, technical assistance from the Entente has been sporadic, and usually provided on an emergency basis to projects in trouble. No help has been provided to the bank itself. The BTD feels a need for a closer technical assistance relationship with the Entente, focusing assistance on preventive rather than curative assistance. BTD officials have incorrectly assumed that visits from U.S. Entente advisors are official USAID visits. They are not aware of the difference. The bank needs immediate help in setting up loan records, ledgers, and a reporting system.

5. Code 941

Upon the incorrect advice of REDSO, the Entente notified the BTD that Japan, West Germany, and Italy are eligible Code 941 countries. This letter was brought to the attention of REDSO and the Entente and has been rescinded.

6. SME Loans and Commercial Banks

An interview with a commercial bank in Lome indicated that any SME projects submitted by the promotion center or the public development banks for financing are almost automatically rejected. This is because they are inadequately prepared and information is frequently incorrect. In the final analysis, banks are reluctant to finance high-risk SME projects on any meaningful scale.

Table A-7. BTD Subloan Summary
(percentage of total activity)

Sector	Tranche I ($1 million)	Tranche II ($2.5 million--$2.1 million disbursed 9/30/81)
Industry	40.4	14.1
Agriculture	0.0	23.8
Commerce	50.3	29.2
Crafts	5.6	3.0
Tourism	0.0	0.0
Transport	3.7	29.9
	100.0	100.0
Number of Loans	27	84
Average Loan	$37,000	$24,100

7. Promotion Center--Centre National de Promotion des Petites et Moyennes Enterprises (CNPPME)

Togo's promotion center, CNPPME, was created by state decree in 1969 as a parastatal agency, dependent on the Ministry of Industry and state societies. It has six senior staff members, and since its creation it has studied or prepared 221 project proposals for development or commercial bank financing. However, only six project proposals were prepared and submitted in the past year. CNPPME was described in its early years as a dynamic organization. For the past several years, however, its productivity has been in question, despite continued heavy technical assistance from UNIDO. Currently, CNPPME project proposals appear to be rejected automatically by commercial banks as a way of avoiding dealing with the SME sector. The BTD and CNCA subborrowers who were interviewed had no confidence in the CNPPME.

As a prior evaluation of this program had indicated, a keen rivalry existed between the head of the CNPPME and the former Director General of the BTD. The present BTD Director General said that CNPPME project personnel interviewed believe that the CNPPME has become an empty organization from a productivity point of view and that its project proposals were impracticable and technically unsound.

Aside from project proposal preparation and market surveys, the CNPPME is also expected to provide research and other assistance for SME, including technical assistance for effective management; technology transfer and diffusion of new technologies appropriate to SMEs; installation and maintenance of industrial equipment; production and marketing of products to expand their use; and creation and management of special industrial zones for the development of SMEs.

Despite CNPPME's questionable capability in the project preparation area, it does seem to have achieved some success in management of several industrial zones.

8. Guaranty Fund

The Fond de Garantie des Credits des Enterprises Togolaises (FGCET) was created in 1971 to provide guarantees for enterprises that are over 50 percent owned by African nationals. The BTD was the major client of FGCET, receiving about 80 percent of the outstanding guaranties. Recently, however, the Guaranty Fund has used its full guaranty authority and is no longer active in African enterprise loan guaranties. The Fund requires new financial contributions from the government before it can regain an active role as a guarantor of SME loans.

C. Conclusions

The BTD has acute problems, and its continued participation in the Entente Fund program should be evaluated. The CNCA arrangement should also be evaluated, and formalized. An AID audit of the AID funds handled by BTD should be undertaken. The BTD has a priority need for extensive technical assistance and the Entente Fund should focus on providing this to the BTD and its clients, providing the evaluations and audit are satisfactory and acceptable to AID.

Compounding the BTD problems is insufficient SME infrastructure. Both the Promotion Center and Guaranty Fund are inactive. Commercial banks consider SMEs too risky, or as one banker stated, "any proposals submitted by the government development banks and Promotion Center are automatically rejected." Commercial banks do take on a few SMEs after careful in-house analysis and on a short-term, fully secured basis.

V. BENIN

A. Economic Background

Benin is a 670-km long and 80-km wide corridor between Togo and Nigeria. It is one of the world's poorest countries. The population of 3.3 million is mostly rural (86 percent) and concentrated mainly in the south. Its average yearly growth rate is 2.6 percent, and the 1980 GNP per capita was $300.

Only 3.5 percent (56,000) of the total economically active population of 1.7 million are urban wage earners. The remainder are engaged in agriculture, trade, or crafts ranging from traditional activities to wood or metal working, tailoring, and small repairs. This small artisan sector has been recognized as instrumental in Benin's industrial development through its capacity to satisfy local needs for simple goods.

GDP grew at a steady rate in the second half of the 1970s averaging approximately 3.8 percent per year in real terms. This performance is second only to that of the Ivory Coast. In fact, Benin appears to have avoided the economic recession of the late 1970s which has affected both Togo and the Ivory Coast.

Agriculture and commerce have been the mainstays of Benin's economy, accounting for slightly over 50 percent of GDP since 1977.

Benin is self-sufficient in the production of traditional food crops--cassava, yams, and maize. As part of a growing trend toward crop diversification, output of vegetables has increased considerably in recent years. The principal cash crops are oil palm products, cotton, and groundnuts. Production of cocoa has increased dramatically since 1975, accounting for almost 25 percent of export earnings in 1978. Oil palm-related production, traditionally Benin's main source of foreign exchange, has not yet completely recovered from the 1977 drought. Livestock, poultry, and fishing account for approximately 18 percent of the value of agricultural production.

Benin's industrialization is fairly recent, dating from the early 1970s. This sector depends heavily on the output of cash crops for domestic processing, particularly of palm products. Crop shortfalls due to drought in the mid-1970s contributed to a slight decrease in the share of manufacturing in GDP, from 7 to 6 percent between 1977 and 1980.

Increased activity in construction and public works has balanced this decline, however, leaving the industrial sector with a share of GDP of 10 percent. In addition to large-scale transformation of agricultural products (palm oil and a new sugar refinery project undertaken jointly with Nigeria), textiles and beverages are the principal industries in the manufacturing sector. These three groups contributed 75 percent of the value added in this sector in 1976.

Cement production has increased rapidly in recent years, doubling between 1978 and 1980, after the opening of a second clinker-grinding plant. Intensified activity in the construction sector associated with the development plan has increased local demand, and a third plant will open soon.

Benin expects to begin exploiting its offshore petroleum resources soon. While the field is small, it is expected that exports of crude oil will exceed imports of refined products within two to three years.

State enterprises accounted for only 8 of 75 industrial firms identified in a 1976 census by the Ministry of Industry. They are heavily involved in the large-scale activities described above. The remaining, mostly private, industries include food processing (wheat products, bakeries, noodles, groundnut shelling), paint, perfume, vehicle assembly, wood and metal working, foam manufacturing, mechanical workshops, and cashew nut processing. These activities are conducted both on a small-enterprise (10 million FCFA investment, minimum of 10 hired workers) and on a less formal artisanal level.

Trading has always been an important activity in Benin, both on the local and international levels. The contribution of the commercial sector to GDP is slightly less than 25 percent. Its sustained growth reflects the importance of Benin's role as a trade center in the region. Expansion of the port of Cotonou is expected to increase Benin's involvement in regional trade. Additionally, the road transport industry facilitates both local and international trade, particularly with Nigeria. The bulk of the traffic is handled by small operators in spite of the existence of state-owned transport companies.

Benin's development strategy has the following goals: (1) to increase and diversify agricultural production, (2) to improve industrial infrastructure, (3) to expand domestic transformation of local resources, and (4) to improve living conditions in the rural areas. Implementation of the plan has been slow as a result of poor project preparation, delays in obtaining domestic and foreign resources, and inadequate control over project execution. Projects initiated so far include a sugar plantation and refining complex (jointly sponsored by Nigeria), a brewery extension, a third cement plant, the expansion of Cotonou harbor, and development of Benin's offshore oil field.

In addition to these large state-sponsored projects that are designed for the export market, the authorities recognize the importance of private sector SMEs in satisfying the domestic market. The Investment Code, in force since 1972, singles out such firms for preferential tax treatment. Several centers are supposed to be available for technical assistance to SMEs, but their operations are haphazard and inadequate. Plans to reorganize public support have not yet achieved measurable results for this category of enterprise, or for the artisan sector whose growth is viewed as basic to the eventual expansion of a more formal manufacturing sector and instrumental in establishing linkages within the economy as a whole. Even though the preferential credit policy of the Central Bank (common to all UMOA countries) singles out SMEs and several foreign sources have extended loans to help finance them, the lack of available technical guidance appears to be a serious handicap.

B. The Banking System

The entirely state-owned banking system comprises three highly specialized banks. Banque Beninoise pour le Developpement (BBD) is the country's main long-term lending institution. As of 1980, it had total assets of 26.8 billion FCFA. The BBD is changing its role from that of a social bank (providing mostly housing loans, consumer credit, and small trade loans) to a full-fledged development bank. Banque Commerciale du Benin (BCB) specializes in short-term commercial banking operations, and was established by the merger of three previously French-owned commercial banks. It is Benin's largest bank, with 15 branches. Caisse Nationale de Credit Agricole (CNCA) was established by the government in 1976 as the primary institution for agricultural financing. CNCA participates with BBD and BCB in seasonal crop financing and providing loans for rural development projects.

The banking system has barely overcome difficulties resulting from the 1974 nationalization of the banks, followed by BCEAO reforms in 1975-1976. The country has embarked on a major development program, and the government is drawing heavily on the Central Bank for financing its development efforts. Such financing by the Central Bank will curtail the amount of money available for private projects through the other three banks. To alleviate the shortage of resources to these banks, particularly the BBD, there is a very considerable need to find alternative resources (long-term borrowings) at favorable terms to compensate for the limits on available financing from the Central Bank.

1. Development Bank--Banque Beninoise pour le Developpement (BBD)

In 1975, the BBD became Benin's specialized long-term financing bank for many economic and social development projects. It has a capital of 1 billion FCFA ($4 million) and is completely state owned. BBD extends medium- and long-term loans to all sectors of the economy, whether public or private. It also participates in seasonal crop financing and maintains checking and savings accounts for its clients. BBD's 15-member board is chaired by the Minister of Finance. The daily operations of the bank are delegated to the general manager, and then in turn to his deputy who supervises and oversees the five departments of the bank (promotion, credit, accounting and finance, administration, and legal). BBD has a staff of 126 employees. The senior officials--manager, deputy manager, and department heads--are experienced, competent officers, and all are university trained.

Total assets of BBD increased from 20 billion FCFA in 1979 to 26.5 billion FCFA in 1980. BBD operates in the black: profits in 1979 were 113 million FCFA and 156 million FCFA in 1980. Reported delinquencies on the overall loan portfolio increased by 12.5 percent from 1977 to 1978 and by 16.2 percent from 1978 to 1979.

Delinquencies on the bank's SME portfolio, including those financed under the AID/Entente Fund program, are high. In 1979, 31.5 percent of the reserves for loan losses was charged to loan write-offs. Reserves at that time were adequate. More recent data were not available.

The BBD lacks adequate long-term resources to meet its loan demands, and its liquidity position is often inadequate to meet clients' needs. As of September 30, 1980, BBD's long-term resources amounted to 3 billion FCFA, as compared to long-term commitments totaling 4.7 billion FCFA. The bank, therefore, is dependent on the Central Bank for loanable funds and liquidity. The bank suffers from some serious mid-management and operational weaknesses which it is remedying with the help of a World Bank-funded technical assistance team.

Principal external resources available to the BBD for financing its overall portfolio including SMEs are summarized below in Table A-8.

Table A-8. Donor Resources for BBD Loan Financing

Donors	Equivalent in U.S.$ (in millions)	
AID/Entente	3	(SMEs)
IBRD (IDA)	10	(SMEs)
ADB	6	
OPEC	4	(SMEs)
BOAD	2	
CCCE (France)	4	
Algerian DB	9	
Total	38	

Thus, BBD's external resources amount to about $40 million, of which $17 million (44 percent) is used to finance SMEs. Of the latter, $3 million, or 17 percent, is provided by AID/Entente Fund.

The BBD usually prefinances its loans with available resources (deposits and Central Bank financing) pending delayed reimbursement by external donors.

Table A-9. BBD Financial Data
(in millions of FCFA)

Item	1979	1980
Total Assets	20,056	26,800
Equity	3,439	3,007
Net Income	113	156
Loan Portfolio	10,691	16,010
Long-Term Debt	2,048	2,555

Policy and Procedures

The interest rates charged by BBD are based on the normal (10.5 percent) and preferential (8.0 percent) rates applied by the Central Bank throughout the UMOA. BBD's margin above the basic rates is from 1 percent to 5 percent, depending on the nature (commercial or development) and risk of the loan. In principle, BCEAO guidelines limit the maximum allowable margin to 5 points, including all charges, but in practice they are higher because of the 1 percent charge for the in-house insurance fund and commitment fees on undisbursed balances.

When a client comes to the bank for the first time, the bank explains its loan procedures, forms, and operations. The borrower is required to open an account with the bank to service the loan. All loans are secured or guaranteed. For salaried clients, the loan payments are automatically deducted from his salary checks. For some retail loans, payments are made quarterly. Small traders' accounts are debited automatically. Loan collection follow-up is by letter and personal contact. All clients are also charged a 1 percent guaranty commission for a guaranty fund reserve for bad debts. For late loan installments, a flat 1 percent fee is charged on all past due amounts (principal and interest).

SME loans currently bear interest at 11.5 percent with maturities of 2 to 10 years. The client can borrow up to three times his monthly salary. Many loans are cosigned (guaranteed) by friends or relatives. Loan processing time from the submission of a completed loan application at a branch to its final approval is about four weeks--two weeks at the branch for initial processing and two weeks at the main office for loan approval.

Technical Assistance

A $10 million IDA credit to the BBD is now under way after some initial technical and legal delays. This financing is timely to the BBD and provides $8.6 million for the financing of SME projects. It is similar to the AID/Entente Fund program, but is more restrictive in scope and its subloan criteria are based on economic justifications, such as employment and foreign exchange generation.

The $1.4 million balance of the IDA credit provides a major technical assistance program carefully focusing on BBD's weaknesses and is designed specifically to improve accounting procedures, to organize data processing capabilities, to improve financial reporting, and to provide mid-level management training. BBD's promotion department, one of the principal sources of business expertise in Benin, is receiving assistance in project identification, project preparation, and feasibility studies, including assistance to private entrepreneurs for all stages of a project's development, from inception to implementation. The assistance of a training/management advisor is also being provided to conduct a training program for SME entrepreneurs. The World Bank will develop a policy for financing artisan projects. It will also provide in-house training and seminars for BBD's staff.

The BBD has received technical assistance from the Entente on an irregular basis, focusing primarily on several project-specific problems. A former UNIDO-funded advisor to the Entente Fund prepared and distributed some copies of a training brochure; with the departure of this advisor there was apparently little interest in following through with the brochure. One employee of the BBD received training in report preparation. BBD officials could not recall any visits to the bank by REDSO officials. The BBD believes that regular working visits by Entente and/or REDSO personnel are essential.

Observations and Conclusions

The BBD after eight years of SME lending experience has not prepared current, accurate reports on the status of the AID-financed subloans, a high percentage of which are delinquent. This is a major problem. The crux of the problem here, in all fairness to BBD, is that neither AID/Entente Fund reporting requirements nor the importance of compliance, has been made sufficiently clear to the bank. By this time the BBD, with Entente assistance, should have reasonably adequate books and records to document the application of funds and the status of all AID-funded subprojects.

Obtaining a clear picture of AID-financed subprojects is a serious problem. The Entente records of BBD activity do not agree with the BBD's own records; both seem incomplete and outdated. The latest status report in the Entente files was for the period ending September 30, 1980, about one year old. It was of little value to the team. When the team arrived in Abidjan, neither the Entente nor REDSO had a clear and current picture of the status of the AID-financed projects. In Cotonou, the BBD had no current figures on the delinquent AID-financed subloans. The team explained that such information was required for the evaluation, and so the BBD, with the full-time assistance of one team member, prepared a more accurate and more recent subloan status report for the period ending March 31, 1981.

This March 1981 report of the bank revealed some disheartening delinquency ratios: for Tranche I ($1 million), 72.9 percent of the AID-financed loans were delinquent. For Tranche II ($2 million, about $1 million disbursed), 58 percent of the AID-financed loans were delinquent. While the top management of the BBD is competent, the bank's middle and clerical levels are in desperate need of long-term training to improve operation performance, to remedy the delinquency problem and to produce subloan status reports on a regular and current basis that are satisfactory to AID and other donors.

Impact of Program on BBD

The Project Paper (May 1975) for Tranche II ($10 million) indicated that the bank was operating at a profit, which it continues to do today. The paper states that the BBD "is the weakest development bank in the region" and the "only one to fail to commit entirely its line of credit from the first loan." The major problem facing the bank today is with its operations/accounting sections. The bank admittedly has serious problems in managing its large number of African enterprise loans, setting up and maintaining precise loan ledgers and records that reflect current borrower repayment performance and interest calculations, and vigorously enforcing past-due payments. The on-going World Bank technical assistance program is providing the bank with an enormous technical and psychological boost. Without that program, the bank would be hard-pressed to keep operations on-track. AID/Entente missed an opportunity to provide this bank with a large input of technical assistance directed at the bank's operating levels. The financing of such training was available under the AID/Entente Fund program; the need for it was apparently not recognized by project managers, and consequently it never materialized.

On a positive side, the bank apparently is now able to generate eligible SME projects. The evaluation team believes that with a concentrated long-term technical assistance staff training program, coordinated with the World Bank program, BBD could mature over the long term into a solid and productive development institution, especially because of its able and dedicated senior officers.

The BBD should not be considered for an additional allocation of Tranche II funds, unless (1) it has the projects to justify the funds and (2) the funds are carefully programmed with a comprehensive technical assistance plan.

Table A-10. BBD/AID Loan Activity Summary (percentages)

Sector	Tranche I ($1 million--fully disbursed)	Tranche II ($2 million--$1 million disbursed 9/30/81)
Industry	24.8	14.4
Agriculture	23.0	0.0
Commerce	32.3	75.0
Crafts	19.8	9.2
Tourism	0.0	0.0
Transport	0.0	0.0
Total	100.0	100.0
Number of Loans	44	103
Average Loan Amount	$22,700	$9,700

2. Promotion Center

BBD carries out its own in-house promotion activities through its Department of Studies and Promotion, which is receiving timely technical assistance under the IDA program. There is no institution specifically serving as a promotion center, although a proposal was made in 1979 for the creation of such a center. The Bureau Central des Projets, which is primarily concerned with large-scale enterprise creation, appears to be pushing this proposal. In addition, the artisanal service is trying to establish a program of artisanal promotion.

The Department of Studies and Promotion of the BBD performs feasibilty studies and project proposal preparation. It also develops management and accounting systems for enterprises financed by the bank. It provides some training for entrepreneurs, (although this activity is new and growing slowly) and public relations functions for SMEs and potential entrepreneurs and industrialists.

Overall, BBD's promotion activities seem to be active and well-run.

3. Guaranty Fund

The Government of Benin has not established a national guaranty fund. The BBD has established its own fund by charging a 1 percent commission on loans, but the current balance is nominal and thus an insignificant guaranty mechanism.

Benin's two commercial banks are state owned. Their lending to SMEs is minimal, and any such financing is confined to short-term credits (up to six months) on a fully secured basis.

4. Conclusions

The evaluation team received a positive and favorable impression of the BBD. Its management is able and dedicated. The Entente Fund effort should concentrate on technical assistance. The bank should also be considered for an increase in its share of Tranche II funds, which apparently can be supported by projects, provided that it is carefully programmed with a comprehensive technical assistance plan integrated with the IDA program. BBD seems to have the potential over the long term to mature into a solid and productive development institution.

APPENDIX B

METHODOLOGY FOR ASSESSING THE IMPACT ON BENEFICIARIES

By

Josette Murphy

I. COMPOSITION OF TEAM AND SCOPE OF WORK

Because of the wide scope, duration, and geographic distribution of the African Enterprises program in Ivory Coast, Benin, Togo, Niger, and Upper Volta, the team included nine members, five of them from Washington and three resident in the Ivory Coast. The Bureau for Program and Policy Coordination, Office of Evaluation, provided backstop support.

The Washington-based team members gathered material and held conversations with knowledgeable AID, World Bank, and IMF officials in Washington, then flew to Abidjan and were joined by the other three members. They spent about one week in Abidjan researching and interviewing, then split into two subteams for two weeks of field work. One subteam did field work in Benin and Togo, the other in Niger and Upper Volta. They returned to Abidjan for a final 10 days of research and interviewing, field work in the Ivory Coast itself, briefings, and drafting. A first draft of the total report was prepared by the team leader, following discussions and briefings held with officers of REDSO and the Entente Fund. Briefings were held in Washington upon return from Abidjan, and this written report was completed in July 1982.

Three main tasks were included in the scope of work: to ascertain whether the program had been implemented as planned in the Project Papers; to assess the effectiveness of the institutions involved (Entente Fund, REDSO, development banks, and promotion centers); and, to evaluate what impact the program has had on the entrepreneurs who benefited from it and on the national economies of the five countries.

II. PREPARATORY PHASE

To assure that the data gathered by each subteam would be comparable, three steps were taken when the team gathered together in Abidjan: a sample of entrepreneurs was selected for each country; a questionnaire was developed for interviews with entrepreneurs; and checklists were prepared for the two key institutions to be visited in each country, the national development banks, and the promotion centers.

A. Selection of the Sample

A chronological list of all loans given by each bank was prepared by the Small Enterprise cell of the Entente Fund (based in Abidjan), where a file for each loan was also available. The files varied greatly in the extent and reliability of data available, depending on which bank prepared them, but all included at least the name of the entrepreneur; the date, amount, and conditions of the loan; and some indication of the type of business. The latter ranged from a terse "Petty Trade" to a full feasibility study.

Information on the location of the place of business or the residence of the entrepreneurs was very sketchy, often containing no more than a post office box or quartier. In West Africa, locating a small entrepreneur can be very difficult. Even in large towns there are no street addresses and the inhabitants are often unaware of the system of bloc numbering that sometimes exists. Small shops are frequently moved, or the type of business changes. In addition, it could be expected that some of the entrepreneurs would have gone out of business (bankrupt or otherwise). However, it was deemed unwise to allow the development banks themselves to seek out beneficiaries and notify them of the evaluation team's visit, as some entrepreneurs would undoubtedly spruce up their shops while others would find an excuse for being "called out of town."

Therefore, two random samples of beneficiaries were selected from the chronological list for each country. Each 10th or 15th name on the list was chosen for the first sample, depending on the total number of loans given, and each 11th and 16th name for the second sample. The second sample was to be used as a backup in case an entrepreneur in the main sample could not be interviewed. This assured a sample size of between 5 and 11 percent of the total number of loans given (except in Upper Volta, where the total number of loans was very small).

Each file for the two samples was then reviewed for details on the entrepreneur's location and on the name of his cosigner, who is often easier to locate because he holds a salaried job. Upon arrival in each country, the team reviewed the bank files, whenever available, for more up-to-date information.

B. Preparation of the Beneficiary Questionnaire

A questionnaire was prepared by the team as a guideline for conducting the interviews and as a means of presenting the data in the same manner for five countries. The questionnaire is a compromise between the detailed quantitative data which would have been desirable and the rough information which was likely to be available. It was assumed that many beneficiaries would not have a written accounting system and that many of those who did would not be willing to open their books for us.

C. Checklists for Institution Interviews

Checklists of the major points that should be covered were prepared as guidelines for interviews at the development bank and promotion center in each country. It was planned that after a courtesy meeting of the subteams with the director of each institution, the team members would separately conduct interviews with staff at various levels of management.

III. DATA GATHERING AND ANALYSIS

The difficulties we encountered in obtaining information and locating beneficiaries varied with each country. For example, in Upper Volta very little information could be obtained at the development bank, where the management was unable or unwilling to show us the files for the 22 loans they had made over the last seven years and to give us complete data on the repayment status of each loan. On the other hand, we had no difficulty in locating the beneficiaries in the sample in Upper Volta. In Niger, we were readily given access to all available information, but were unable to locate some of the beneficiaries in the sample.

In Ivory Coast, reasonably good data were available at the two development banks, although in cases in which legal procedure had been initiated it was not clear whether the businesses had gone bankrupt or not. We met the greatest difficulties in locating beneficiaries in Abidjan, partly because of numerous bankruptcies and partly because of the size of the city, which is too large to simply go to the quartier indicated in the file and start asking shopkeepers for the beneficiary's whereabouts. Abidjan's system of bloc numbering has fallen into disuse, and no precise addresses are available. With an original sample of 21 beneficiaries, we attempted to locate 17 entrepreneurs but only conducted nine interviews.

A recapitulative table was prepared for each country to regroup the key factors for each enterprise visited. It should be kept in mind that no national extrapolation should be made from such small samples and that all quantitative information is estimated.

A comparative analysis among the countries is difficult to make and very tentative, for methodological and substantive reasons.

During the course of the evaluation, the two subteams diverged in their approach even though they used the same questionnaire and checklists. The Upper Volta/Niger team divided responsibilities for report writing but each member conducted interviews both in institutions and with beneficiaries. Each Benin/Togo team member focused only on institutions or on beneficiary interviews. When interviewing beneficiaries, the Upper Volta/Niger team tried to obtain a broad understanding of all the activities of each beneficiary (many of whom are active in several lines of business), and to retrace the evolution of these activities before and after the loan period. The Benin/Togo team focused on the activity directly related to the loan, and attempted to obtain detailed figures on loan costs and income.

This demonstrates the difficulty of conducting an impact evaluation of a regional program when subteams will be separated for most of the data-gathering period. However, there are such gross differences between the countries in their political and economic environments, and in the capacity of the institutions involved, that a comparative analysis between beneficiaries would be distorted. The difference in approach between the subteams, therefore, is not detrimental to the validity of the analysis for each country.

APPENDIX C

IMPACT ON AFRICAN ENTREPRENEURS

by

Josette Murphy

I. INTRODUCTION

It is always difficult to ascertain the impact of a development project on its beneficiaries and on the national economy, since a project is only one small element in a complex process. This is even more true in the case of the Entente Fund (EF) African Enterprise Program for the following reasons:

-- The very concept of "small entrepreneur" in the African context is elusive. Most adults in West Africa rely on several lines of activities to generate income. This is particularly true in rural areas, where farming households are busy with handicrafts, petty trade or wage labor whenever their members are not fully occupied with farming activities. It is also true in urban areas, where wage earners often finance a sideline business with a parent or employee to supervise it. Even in households where income derives entirely from entrepreneurial activities, most rely on several lines of business at the same time.

-- The Entente Fund program is being implemented in countries with diverse social, economic, administrative, and political settings. To compare the results achieved between countries without qualifications would be meaningless.

-- There are great variations between enterprises even in the same country and the same type of business, so any generalization from the sample should remain very tentative.

The basic characteristics of all loans given are summarized in Table C-1. The impact of the program in each country will be discussed in Section II, and general comments on the program will be made in Section III.

We have made every effort to keep the data consistent throughout the report. However, this has proved very difficult because some entrepreneurs have received several loans. Banks report multiple loans to the same entrepreneur sometimes as one loan, sometimes as several. Even within the same bank, reporting is not systematic. Data compilation done by the Entente Fund has not been systematic either in its handling of multiple loans to the entrepreneur. Data in Entente Fund files can differ from data in bank files. Despite this, any inconsistencies are minor, and do not affect the discussion or conclusions.

Table C-1. Basic Characteristics of All Loans as of October 1981

Country	Total Loaned (million FCFA)	Range	Average	Median	Number of Subborrowers (excluding Revolving Fund)	Percentage of Loan Amount Earmarked for Fixed Assets	Estimated Number of Jobs Created	Ratio of New/Existing Enterprises in Sample Visited
Niger	516.8	.2 to 83	6.5	3	80	90	1,000	4/4
Upper Volta	270.0	1.7 to 91	12.9	6.2	21	30	150	1/8
Benin	484.7	1 to 53	3.37	2.0	144	36	few ?	0/7
Togo	667.8	0.9 to 53	6.9	4.0	103	63	few ?	2/9
Ivory Coast	1,235.6	.2 to 100	6.2	less than 1	199	93	1,000	5/4
Total	3,174.9	.2 to 100	7.3		547	71	about 2,200	12/32

II. IMPACT IN NIGER

About 100 people have received loans from the BDRN from the Entente Fund line of credit, with some beneficiaries receiving several loans. This includes 83 entrepreneurs who received loans made directly from our line of credit (48 under the first tranche and 32 under the second tranche) and over 20 recent loans made from the revolving fund created with repayments from early loans.

The BDRN reserves the Entente Fund line of credit for smaller enterprises; indeed, about 70 percent of all loans were under 5 million FCFA, although the range is broad (from 200,000 FCFA to 83 million FCFA).

Loans made under the revolving fund are smaller than previous loans. Table C-2 shows the distribution of the loan amounts.

Table C-2. Distribution of Loan Amounts in Niger, Including Revolving Fund

Amount of Loan	Tranches I and II		Revolving Fund		All Loans
(million FCFA)	Number	Percentage	Number	Percentage[1]	Number
Less than 5	48	58	18	75	66
5 to 10	20	24	1	4	21
10 to 30	13	16	2	8	15
30 to 60	1	1	2	8	3
Over 60	1	1	1	4	2
Total	83	100	24	100	107

[1]Figures do not add exactly to 100 due to rounding.

The total number of loans is small in relation to the size of the private sector, and in that sense the impact on the economy can only be marginal. However, a few sectors have benefited from a relatively large number of loans, as indicated in Table C-3.

Table C-3. Sectors Receiving Relatively Large Numbers of Loans

Category of Enterprises	Number of Loans Given
Construction and Related Activities	30
Garages and Other Transport	21
Nutrition-Related Loans (poultry farms, food processing, bakeries)	20
Hotels and/or Restaurants	15
Services	11
Trade	6
Production (not related to construction)	4
Total	107

The Promotion Center (OPEN) recently estimated that there are some 70 garages in the whole of Niger. Since there have been Entente Fund loans to 13 of them, the Entente Fund seems to have made a significant contribution in that sector crucial to the economy of the country. In the same way, the emphasis on construction has a positive impact on the economy, both directly (job creation, import substitution, and decrease in dependency upon foreign enterprises) and indirectly (necessary support for industrial development). These sectors are also emphasized by OPEN for their activities in training and technical assistance, and there is a coherent effort on the part of the Government of Niger to emphasize these as well. This kind of sectoral emphasis permits the Promotion Center to benefit from economies of scale.

On the other hand, Entente Fund loans to traders have been few, in part because many traders in Niger have their own trade and informal credit channels with their partners in Nigeria.

The BDRN is very worried about meeting AID's requirement in agricultural development, and yet 20 loans have already been made to enterprises related to agriculture and nutrition (poultry farms, food processing, and bakeries), many of them located outside Niamey. The BDRN needs additional assistance from the Entente Fund on how they can comply with our requirement; they in fact may have complied already once the situation is assessed. In the meantime, the BDRN has been reluctant to agree to new loans even though it still had (at the time of the evaluation fieldwork) some $740,000 available funds in the second tranche.

Until now, all but three of the loans have been made to men, most of them middle-aged. While the majority of loans have been made to Niamey entrepreneurs, there have been some loans in smaller towns in the southern part of the country.

The evaluation team had some difficulties in locating places of business in Niamey; only 8 of the 12 beneficiaries we looked for were interviewed. These included enterprises in the five sectors with the most loans (as listed in the previous table). Two of the enterprises were outside Niamey.

The enterprises we visited were diverse in size and capital, ranging from one with two small boats for public transportation on the Niger River, which quickly went bankrupt, to a firm that had been created with a 3 million FCFA loan from the Entente Fund for repairing radios and air conditioners, and which is now the only Nigerian firm capable of installing complete electrical wiring in multistoried buildings. The loans were provided between 1974 and 1980, and range from 0.5 to 18 million FCFA.

Five of the loans were to start new enterprises and three to expand existing businesses. Only two of the eight enterprises have never obtained a loan from another source than Entente Fund. Four are active in several lines of business at the same time. All seven enterprises that are still in existence are now employing more workers than they did before taking the loan. A total of 110 permanent jobs and probably some 100 temporary jobs have been created, although we cannot tell how many are direct results of our loan. By projection, the Entente Fund line as a whole may have helped the creation thus far of 1,000 new jobs in Niger. The wages paid are usually at or above the legal minimum for skilled workers (highly skilled nationals are hard to find). There is some evidence of sublegal wages for unskilled laborers. Many entrepreneurs employ some foreigners because they cannot find qualified Nigerians.

The entrepreneurs usually train their own employees, sometimes (four out of eight) through some sort of formal apprenticeship contract. None of those we visited had used an OPEN training course (the businesses were usually created before OPEN started). One entrepreneur was offered a training grant from OPEN but could not find a candidate who met OPEN's conditions of age and nationality.

Our line of credit had practically no effect on import-export flows. A number of import-substitution factories are being created in Niger, but other lines of credit are being tapped for that purpose. Seven of the eight borrowers have acquired additional equipment and/or buildings. Much of the equipment is bought in Nigeria, albeit not always through official channels. Complex machinery is bought in France or Germany.

Six of the eight enterprises visited were quite successful. Only one went bankrupt, but in that case the entrepreneur stayed active by concentrating on his previous line of business. We had difficulty obtaining financial data from the entrepreneurs, even though all but one had some sort of modern accounting system. The breakdown of estimated gross revenue in the businesses for which the Entente Fund loan was granted is as follows: 5 to 15 million FCFA--two enterprises; 50 to 150 million FCFA--4 enterprises; and one enterprise--about 800 million FCFA. These figures are not necessarily an indication of the standard of living of the entrepreneur, because half of the proprietors have more than one line of business, but profits have increased in the past two years in each of the seven enterprises still active.

In general, the Entente Fund loans have had a significant positive impact on the beneficiaries. For six of the eight, our loan was a crucial factor in creating or expanding a business. Some would have found other ways to finance their enterprises, but at a later period. The Entente Fund can, therefore, be said to have helped develop the African private sector in Niger, especially through job creation and subsequent skill training.

III. IMPACT IN UPPER VOLTA

The Entente Fund contribution to the total credit provided to small and medium enterprises (SMEs) in Upper Volta is very small, less than 3 percent of a total of 9 billion FCFA. The BND has made only 22 loans to entrepreneurs from the Entente Fund line, most of which were extended some time ago, in 1973 and 1974. The small number of loans extended by the BND is not due to lack of need on the part of entrepreneurs, but to managerial problems within the bank. BND has not had a good reputation among small entrepreneurs in Upper Volta. There has been corruption and mismanagement at various levels of the bank, and this is known to small entrepreneurs (especially merchants); the result is distrust of BND. Furthermore, differences in interest rates and requirements between BND and the commercial banks have recently become minimal, and many entrepreneurs find it easier and less risky to deal with a commercial bank. Only the commercial banks provide easily available short-term loans, which many enterprises have needed in the past to solve cash flow problems. Recently BND began actively considering new applications for Entente Fund credits, and at the time of the evaluation several were in the latter stages of processing. The 22 loans ranged from 1.7 million to 91 million FCFA, with a median of 6 million FCFA; 30 percent were over 10 million FCFA. Their distribution by amount is listed in Table C-4.

Table C-4. Distribution of Loan Amount in Upper Volta (Tranches I and II)

Loan Amount (million FCFA)	Number of Loans	Percentage
Less than 5	10	45.0
5 to 10	5	23.0
10 to 30	5	23.0
30 to 60	1	4.5
Over 60	1	4.5
Total	22	100.0

The enterprises are in very diverse lines of business. Six involved activities related to construction work, four dealt with commerce, four were related to agriculture (livestock and bakeries), two were factories, one a hotel, and three involved various services. Three of the loans have been made to two of the largest factories in the country.

The Entente Fund line of credit has had minimal impact on rural development and nutrition in Upper Volta. Loan recipients include two bakeries and two traders in cattle and agricultural products. Government institutions now have a monopoly on meat and agricultural product marketing, and this has broken down the previous competition between wholesale traders. The result seems to be lower prices for the producers and less efficient distribution to the consumers.

Successful enterprises were found to be highly diversified, in fact usually combining several companies under one manager-owner. Several loans were made to high officials of the Government of Upper Volta for enterprises to be run by a relative. This is probably partly because the BND accepts a government salary as collateral for a loan, so an entrepreneur is more likely to qualify for a loan if he has a relative in the administration, and partly because civil servants and government officials are better informed of the activities of a bank and of the processes to follow to apply for a loan.

No loan has been made to a woman at this date. All but four of the enterprises are located in Ouagadougou, the capital, or Bobo Dioulasso, the main industrial center.

We visited nine Entente Fund beneficiaries and three enterprises which had received only loans from commercial banks. There was extreme diversity in size, type, and results in the enterprises we visited.

The random sample of nine beneficiaries included the loans to two of the largest enterprises in the country. One is a privately owned bicycle tire factory with a current net worth on the books of 2.4 billion FCFA, although it is probably worth much more than that because it has an unconsolidated but large subsidiary in Dakar. The other is a large state-owned textile mill with a turnover of 3 billion FCFA in 1976. Both of these were already large enterprises when they received the Entente Fund loans. The textile mill is in difficulty and its management is being reorganized. The tire factory is trying to line up banks to meet very large external investment and operational needs. In both cases, current difficulties seem to stem from over-expansion.

Of the nine enterprises visited, all but one were already well established in the business world when they received the Entente Fund loan, and seven used the loan for expanding an ongoing line of business. All but two have obtained other lines of credit in addition to the Entente Fund, but it should be noted that most of our loans were given in 1973-1974, when most of the recipients would have found access to other credit difficult if not impossible. The enterprises are owned and supervised by middle-aged men, the youngest being in his late 30s.

The enterprises vary greatly in labor force. The two large factories employ a total of about 1,200 workers. The others employ from 10 to 70 permanent workers each and sometimes as many as 100 temporary workers. While in some enterprises there is a clear relation between the Entente Fund loans and the increases in labor force, this is not the case for all the loans as the types of enterprises and the purposes of the loans are diverse. Still, at least 150 new jobs can probably be linked to the Entente Fund credit for the 18 small enterprises. The skilled workers are paid at least the legal wage, but some unskilled workers are paid less than the legal minimum, as are the apprentices.

Four of the nine enterprises visited had no provision for training all of their employees, but had a more or less formal system of apprentices. On-the-job training of apprentices in small enterprises fulfills a crucial need of countries such as Upper Volta, with few vocational schools and a low level of school attendance.

Local production of bicycle tires and cloth by the two large manufacturers has displaced some imports. Two smaller enterprises we visited are successful in international trade, but they received funds from a variety of sources and the Entente Fund loans seem not to have been critical to their success.

Equipment and machinery are bought in Upper Volta or imported from Ivory Coast, France, and Germany.

While the rate of interest charged by the BND is not very different from that charged by the commercial banks, the borrower incurs other costs in each case. He must be up-to-date in paying taxes and registering his business, two steps which can be a problem for a small business. He must open an account with the BND, obtain official documents to substantiate the property offered as collateral, and eventually travel to town.

Of the seven small enterprises we visited, two have had grave difficulties; but one of these has bounced back into a new line of business. We judge that the Entente Fund loans as a whole have had noticeable, positive impacts in at least half of the enterprises visited. Precise data on gross revenue and profit could not be obtained. Two enterprises had gone bankrupt, and one (cattle raising) is still too recent to have earned any profit. Of the remaining four companies we visited, three have more than tripled their yearly profit since 1973-1974. The range of gross revenue for the four profitable small enterprises varied from 50 million to 120 million FCFA.

At the national level the loans made over the past eight years are too few to have had any discernible effect on the country's economy. Demand created by the increase in AID staff and bilateral projects in Upper Volta since 1977, and the resultant expatriate consumption demand, has probably made a greater contribution to the development of small businesses than this program.

Some basic problems regarding SMEs in Upper Volta include lack of a coherent, consistent policy toward SMEs, corruption and mismanagement in both BND and OPEV, lack of coordinated credit and promotion, and lack of trained Voltaic cadres for the modern sector.

Another crucial need beyond credit is training in management for entrepreneurs and for all levels of government employees and officials. A country at Upper Volta's early stage of economic development is not ready to receive financial assistance without an intensive, concomitant program of technical assistance. Personnel based in Abidjan, no matter how dedicated and competent, cannot play that role.

On the other hand, we are aware of two successful credit programs to SMEs in Upper Volta assisted by AID. One is the Partners for Productivity project, implemented by this private organization in the eastern region of the country. During 1978-1981, 370 loans were made from the Partners' revolving fund of about $82,000. The loans are small, on the average less than 200,000 FCFA, and repayment periods are tailored to the needs of the enterprises. The five American and twelve Voltaic staff provide intensive, on-the-spot technical assistance to these enterprises. The other project is implemented by AID staff through the Volta Valley Authority, a parastatal institution which coordinates the creation of new villages in sparsely populated river basins. It includes a revolving fund for loans to individuals or groups who want to organize a production unit or a service useful to the newly established villages (for example, a store or a mill or water supply for vegetable growing), and also an intensive program of technical assistance for the planning and follow-up of such new enterprises. Unlike the Entente Fund program, both of these projects involve permanent technical assistants who work closely with the entrepreneurs in rural areas, and training for both the entrepreneurs and many of their workers.

IV. BENIN

The Entente Fund is providing $3 million to the BBD, about 7 percent of the amount available to the BBD for loans to SMEs. As of September 1981, $2.1 million has been disbursed to 144 entrepreneurs. This includes 41 entrepreneurs under the first tranche and 103 under the second tranche; a few received more than one loan (see Table C-5).

Most loans in Benin are very small: 84 percent are under 5 million FCFA; and only one entrepreneur received a loan over 30 million FCFA. The majority (112 out of 144) of the loan recipients were small traders. This emphasis on the commercial sector was even greater in the second tranche (88 out of 103) than in the first one (23 out of 41). The commercial sector has an important role in the Benin economy, because it accounts for 25 percent of the GDP and its role is increasing.

Table C-5. Distribution by Loan Amounts in Benin

Loan Amount (million FCFA)	Tranches I and II	
	Number	Percentage
Less than 5	121	84
5 to 10	17	12
10 to 30	5	3
30 to 60	1	1
Over 60	0	0

The focus on petty trade explains the large number of loans under 5 million FCFA. It also explains the facts that most loans (91 percent) were made to individual entrepreneurs and that 36 percent of the beneficiaries are women. The beneficiaries are middle-aged people; all but one had a steady occupation in the previous year.

The team had difficulties in contacting entrepreneurs in Benin, partly because many were on pilgrimage at Mecca. Seven interviews were conducted (about 5 percent of all beneficiaries). Five of the enterprises visited were in the commercial sector, one was a restaurant, and one a plumbing business. All were located in Cotonou. All were owned and managed by individual entrepreneurs, four men and three women.

The loans had been given between 1974 and 1978 and ranged from 2 to 5 million FCFA. All were to be used for working capital for already existing businesses. None of the entrepreneurs had borrowed money from a bank before, and none of them have since. At least three of the entrepreneurs are active in several lines of business at the same time.

All but one of the enterprises visited employed only five workers or less in 1981. The number of workers has remained stable over the years--the majority of subloans in the sample were for commercial enterprises, including informal sector trade, which have little capacity to absorb more labor even if turnover and profits increase. Traders and retailers in Benin tend to specialize in one product line (e.g., French-made bicycle spare parts) and keep their places of business restricted to one or two at the most.

Aside from the entrepreneur himself, most workers were hired labor rather than family members. Generally, the workers did receive at least the minimum wage. Unions are powerful in Benin and the wage laws appear to be enforced. Training is not really a problem in petty trade, and most entrepreneurs prefer to train their employees themselves anyway.

Despite the 941 and 935 provisions of the Loan Agreement and the subloan agreements with the respective banks in Togo and Benin, a significant proportion of the funds have, in fact, been used to import non-941 vehicles, machines, and spare parts; for example, a market stall which sells only French-made bicycle spare parts. The owner, who is actually a sales representative for an import firm, was very pleased to point out that he was the only one in the biggest market in Cotonou who sells exclusively French-made spare parts, and that it is because of this that he is successful. Cloth merchants import cloth from China and Japan, as well as the top-quality Dutch prints. All the shops in the sample, like most of their competitors, limit their business to the local market.

Four of the seven enterprises seemed to be profitable in 1980. In absolute numbers, six of the seven enterprises had a gross income in 1980 that was 25 percent higher than what they had in the year of the loan, and four had a larger absolute profit.

To summarize, the loans made to Benin entrepreneurs are very small; most are to petty traders and most were made for working capital to existing businesses. In addition, the Entente Fund line of credit represented only 7 percent of credit available to SMEs through the BBD. In such conditions, it is unlikely that the Entente Fund can have had much of an impact on the country's economy. However, virtually every beneficiary we interviewed stressed the crucial and continuing need that he or she has for additional working capital. The Entente Fund is, therefore, helping to fulfill a felt need of the entrepreneurs.

V. TOGO

Slightly over 100 Togolese entrepreneurs have received loans from the Entente Fund line of credit, 27 under the first tranche and 76 under the second tranche (some have received more than one loan). The loans are small, the majority being under 5 million FCFA. Unlike the other Entente countries, the agricultural sector has benefited most, receiving about 40 percent of all loans given (all of them under the second tranche). Togo is also the only country where the agricultural bank (CNCA) has been actively involved with the development bank in dispersing the Entente Fund monies. The cooperation between the two banks has been informal, but it seems to have been an effective way to make loans for rural enterprises. The commerce sector received the next largest number of loans (36 percent of the total).

Companies received 26 percent of all loans given. Of the 76 individual entrepreneurs who received a loan, 33 percent were women. The individual entrepreneurs are middle-aged, and many of them hold a regular salaried job or have a spouse that does. It is systematic policy on the part of the BTD and the CNCA to give preference to salaried borrowers. Many of the beneficiaries are located outside the capital, probably, in part, because the agricultural sector has been encouraged.

In Togo, the team was actually able to interview all 11 entrepreneurs as planned. This represents 11 percent of all entrepreneurs who received an Entente Fund loan. The enterprises visited included one factory, four stores, four agricultural activities, one transport firm, and one maternity clinic. The sample, like the population of loan recipients, is therefore concentrated in the agricultural and commercial sectors.

The loans range from 0.9 to 53 million FCFA, but 6 out of 11 are 5 million FCFA or less. Only two loans were taken to create new enterprises--a fishery and a rabbit farm. The other eight were for working capital only (three), or for working capital and expansion of an existing business (five). Only two enterprises ever received a loan from another source.

The eight enterprises still operational in 1981 employed a total of about 115 workers, about the same as before the loan. As in the other countries, most of these entrepreneurs train their workers on the job, except for highly specialized technicians.

Two of the four agricultural enterprises have gone bankrupt, one because a fire destroyed its facilities. Both had been created in 1978 with the Entente Fund loan. The other two are too recent to show much profit. The one industrial enterprise we visited has also gone bankrupt.

The four commercial businesses are profitable. Their gross revenue has increased over the years but only slightly ahead of inflation; but this is a satisfactory result especially considering that the largest of the four enterprises had decreased its labor force, therefore increasing its profitability even more.

Overall, the Entente Fund loans have been useful to Togolese entrepreneurs in the commerce and agricultural sectors. It is too soon to evaluate the Entente Fund's actual impact in the agricultural sector, as all loans in this sector were made in 1978 or later. However, it is likely that the Entente Fund's activities will have an impact on the economy, because the loans are concentrated on a few types of production. A total of 17 entrepreneurs have received a loan for crop production (including plantations), 27 have received a loan for livestock or fisheries, and 3 for food processing activities.

VI. IVORY COAST

The Entente Fund line of credit is dispersed in Ivory Coast through two development banks, BIDI and CCI; however, in the following discussion the total lines of credit and their impact on beneficiaries will be studied, regardless of which of the two banks actually made the loan.

In Ivory Coast, 199 entrepreneurs have received a loan from the Entente Fund line of credit for a total amount of 1,235.6 million FCFA. The range is 2 to 100 million FCFA, with the great majority of the loans (72 percent) under 5 million FCFA. More than 100 of the loans (over 50 percent) are for less than 1 million FCFA, and only 6 percent are over 30 million FCFA. Most of the amount loaned (93 percent) is for fixed assets rather than for working capital (see Table C-6).

Table C-6. Distribution by Loan Amount in Ivory Coast (BIDI and CCI loans combined)

Loan Amount (million FCFA)	Number	Percentage
Less than 5	143	72
5 to 10	20	10
10 to 30	23	11
30 to 60	10	5
60 or more	3	2

The commerce sector received the largest number of loans (41 percent) followed by crafts (21 percent), agriculture (19 percent), industry (12 percent), and transport (7 percent). However, the industry sector received half of the total amount loaned (see Table C-7).

Table C-7. Distribution of Loans in Ivory Coast, by Sector (BIDI and CCI loans combined)

Sector	Loan Amount (million FCFA)	% of Total Loans by Category	Beneficiaries Number	%	Average Loan (million FCFA)
Industry	609.3	49.3	24	12	25
Agriculture	53.7	4.3	37	19	1
Commerce	301.6	24.4	82	41	4
Crafts	87.3	7.1	41	21	2
Tourism	3.7	0.3	1	0	4
Transport	180.0	14.6	14	7	13

Twenty-six companies have benefited from an Entente Fund loan. Of the 173 individuals who received a loan, 127 (73 percent) were men and 46 (27 percent) were women.

The evaluation team had extreme difficulties locating places of business in and near Abidjan. The team attempted to locate 17 businesses but was only able to find and interview nine entrepreneurs: six men and three women. This represents 4.5 percent of the total number of beneficiaries. The loans, given between 1974 and 1981, ranged from 0.9 to 15 million FCFA, and were taken to create new enterprises in five of the nine cases. For five of the entrepreneurs, the Entente Fund was the only loan they received. At least four of the entrepreneurs we visited had more than one source of income.

About 50 additional workers had been hired by the nine enterprises since they received the loan, an increase of over 70 percent in labor force. These additional jobs coincide with an increase in investment (loan plus personal contribution of the entrepreneur) of about 120 million FCFA, or 2.4 million FCFA per additional job (about $10,000 at 230 FCFA per dollar).

VII. GENERAL IMPACT ON BENEFICIARIES

Three sets of problems are common to the great majority of beneficiaries in all five countries: the relationship between borrower and bank, the transaction cost of the loans, and the need for training and technical assistance. These problems are discussed below for the five countries together.

A. Difficult Relationship Between Borrower and Bank

Most beneficiaries are not used to dealing with a bank and have never had even a checking account. They cannot prepare a loan application without assistance, and depend on the ability and the goodwill of the Promotion Center and/or bank staff for help in doing this. There have been some abuses on the part of some staff, for example in Upper Volta and Togo. Elsewhere, the problem is basically that the entrepreneur is not well informed on the loan conditions, including real cost (see next section), and he or she has little influence on the processing of an application. Yet the cost and timeliness of the loan are often essential to the prosperity and even continuation of the business.

It would be useful if the Entente Fund helped each bank prepare a very simple bulletin explaining what a bank is, how to open and use a checking account, and what steps have to be taken to apply for a loan.

B. Hidden Transaction Costs

The base interest rate charged by the banks for Entente Fund loans varies over time and between banks. It has increased from a maximum of 8 percent in 1973 to 11 percent in 1981, and may be slightly higher for working capital loans, which may not qualify for these preferential rates. However, interest is only part of the real cost of the loan to the beneficiaries, most of whom are quite unaware of what they are actually paying.

All subborrowers interviewed were asked whether they had other credit sources and were asked to compare transaction costs between those sources, if any, and the subloans they had received under this program. Further, interviews with bank personnel and officers provided a check as to direct and indirect transaction costs to the clients. Undoubtedly transaction costs are high even if only direct ones are considered, e.g., application fees, commissions for project preparation, account service charges for mandatory current accounts at the bank (average FCFA 3,000 per year), and collateral.

In addition, there are a number of other quasi-direct costs; e.g., registering title to collateral with the local registry office which exists only in the capital city; travel to and from the bank headquarters even if there is a local branch; travel to make deposits and withdrawals in the account or to pay loan installments in cash, which is frequently done even though all subborrowers are obliged to maintain checking accounts. Additionally, there are a variety of hidden costs: clients of the bank never really understand how interest is calculated; they are not given statements which explain what has been debited from their accounts or the surcharges on late installments (which are also variable and beyond the control of any monitoring subsystem within the bank); and finally, so much collateral is required that potential subborrowers cannot get additional credit because, in effect, everything they own is already mortgaged, together with most of the mortgageable belongings of their families.

A major indirect cost can be the delay between submission of the application, which must include a project proposal (including a feasibility study), and the granting of the loan. For some entrepreneurs we interviewed, this could be a matter of years. Such delays are a grave problem for investments since the loan application must include firm invoices for all machinery and buildings. This means that by the time an entrepreneur finally receives the loan, the equipment he wants to buy probably will cost more and he may have cash flow problems before he even gets started. Some banks (for example, in Togo) try to take this into account.

Given repeated statements by interviewees that they were at a loss to understand what interest rate they were paying, on return to Abidjan the evaluation subteam for Togo and Benin went through the loan files at the Entente Fund once again in an attempt to find out what interest rates were actually being charged.

The review of files was disconcerting. Most files were incomplete when compared with files kept by the more educated and experienced subborrowers which the subteam had reviewed during the respective interviews and from which they had copied down relevant data. More important, perhaps, this review showed that in a number of cases either subborrowers were being charged capitalized interest fees or were being charged interest for the life of the loan on charges which were allegedly for one-time commission or bank service on the loan, or both.

It appears that should a subborrower seek redress through the Entente Fund, having exhausted local possibilities, the Entente Fund would not from its own files be able to sort out the pros and cons of the subborrower's case. Correcting and completing the subloan files at Entente Fund headquarters should be an early priority, and maintaining them in that state should be part of an ongoing monitoring and evaluation system.

C. Need for Technical Assistance to the Beneficiaries

Many of the beneficiaries we visited would have welcomed more technical assistance than they actually received. They especially felt the need for more information on sources of procurement and on recordkeeping (stock and accounting). In Upper Volta, the evening courses in basic bookkeeping organized by the Promotion Center are very popular in every town where they are offered. The Entente Fund staff have prepared several informative booklets for selected types of enterprises (garages, electricians, bakeries, etc.).

The Entente Fund technical assistants, based in Abidjan, are responsible for managing the program and provide technical advice to the banks and the entrepreneurs. While the present staff is experienced, dedicated, and very energetic, it is simply impossible for them to provide personal assistance to many entrepreneurs. They do help with the feasibility study of relatively complex enterprises and visit each country regularly. They have attempted to meet with existing enterprises, but day-to-day assistance cannot be provided on a regional basis. For example, a country like Upper Volta is not yet ready to receive financial assistance without an intensive program of technical assistance at the same time. Neither the Entente Fund personnel based in Abidjan nor REDSO is physically able to play that role.

This forces us to raise the question of the effectiveness of a regional program in the case where the countries involved may demonstrate considerably different levels in economic development and managerial capacity. We know of two successful credit programs to SMEs in Upper Volta; both involve permanent technical assistants who work closely with the entrepreneurs in rural areas, very small loans (a few hundred thousand FCFA), an intensive follow-up of the business, plus an important training component both for entrepreneurs and for Voltaic cadres.

While one should not expect too much from a program that has reached but 547 beneficiaries in five countries, the Entente Fund loan program has had a positive impact both on some of the beneficiaries and on some of the banks that have participated in the program. For example, the director of the development bank in Niger explained that the training his staff had received when the Entente Fund line of credit was opened enabled his bank to later handle efficiently a much larger World Bank line of credit reserved for entrepreneurs.

We did meet with some entrepreneurs whose success can be directly linked to an Entente Fund loan. For example, in 1976 a merchant and an electrician created a company to repair air conditioners and radios with a 3 million FCFA loan from the Entente Fund. They soon switched to electrical installations in new buildings, mostly for the government, and today they are the only African business of their type capable of handling complete electrical installations in large complex buildings. Their permanent staff has increased from 9 to 25 and they hire up to 100 temporary workers per job. They also subcontract with small local electricians, some of whom had been apprentices with them. They have just been awarded a contract for a 12-story building, and for assistance on this they will hire a French engineer. They expect to top 1 billion FCFA in gross revenues next year. The key to success seems to be the combination of the keen business sense of the merchant, and good professional skills of the electrician, who negotiates equipment contracts with French firms and trains the workers.

Another example is that of a government worker in Niger who wanted to set up a restaurant in his home town. The development bank refused a loan because it was already financing a restaurant in the town. A friend of the applicant (a baker in Niamey) suggested that he start a bakery instead because there would be little competition. The BDRN provided 18 million FCFA of Entente Fund funds in 1978 to buy all the equipment needed, and his friend trained the staff in Niamey. His bread is good, and he now serves the town, including several schools and one hospital, and several neighboring villages. He has 25 permanent employees and his gross income (turnover) is about 113 million FCFA. He also has developed a bar-restaurant-hotel next to his bakery with his own funds and a loan from a commercial bank. He quit his government job when he started the bakery.

The Entente Fund line of credit has been used by the development banks for two different purposes--to increase production capacity, and to ease cash flow problems.

For many of the beneficiaries, the loan enables them to invest in a new business or to expand an already existing business, so that there is a significant change in the amount or quality of services contributed to the national economy. When such loans have been frequent in a country, especially if they are concentrated in a few sectors of importance to the national economy, the project can have a significant impact on job creation and increases in trade. Such loans should be provided on the basis of a detailed feasibility study and the entrepreneur is likely to require much technical assistance; delays are to be expected and are not necessarily a problem if inflation is taken into account when preparing the budget. Repayment should be spread over a rather long period, and the grace period should be long enough for the investment to start paying off before payments are due.

Other beneficiaries, however, have received loans, usually very small, entirely earmarked for working capital with no plans to otherwise modify the business. Such loans are very important to a small entrepreneur who is often faced with recurrent cash flow problems. To be most useful, the loan should be large enough to do more than just tide him over until the next difficulty, and the funds should be made available quickly with a minimum of paperwork. These loans can be short term. Technical assistance may be needed to discover what caused the problem in the first place and how to prevent recurrence of it.

The two types of loans serve different purposes and have different requirements. In fact, relatively small loans for working capital can be better handled through a prearranged overdraft on a checking account with a commercial bank. We did meet some entrepreneurs who call on the development bank for long-term investments but rely on a commercial bank overdraft for temporary problems.

The five countries have had very different performances in this regard. When one looks at the planned use for the loans, only about one-third of the amount loaned in Upper Volta and Benin was earmarked for fixed assets, compared with almost two-thirds in Togo and with 90 percent in Niger and Ivory Coast. It is only in these last two countries that a significant number of jobs were created after the loans had been granted (probably about 1,000 jobs in each country). It is also in Niger and Ivory Coast that the AID line of credit was used to create a new enterprise in at least half of the businesses we visited rather than expand an existing one.

It is unclear how this "specialization" between banks developed, but it is worth noting that the two banks which favor working capital loans are those of the countries with the lowest GNP per capita.

APPENDIX D

CENTRAL BANK OPERATIONS AND POLICIES

CENTRAL BANK OPERATIONS AND POLICIES

The Board of Directors of the BCEAO is composed of 14 members, with 2 representatives from each member country and 2 from France. The Chairman of the Board is a national of one of the member countries, appointed for a six-year term. The Board manages the central banking operations, while a Council of Ministers composed of two ministers (including the Minister of Finance) from each member country, is responsible for formulation of the broad monetary orientation of the Union and for overseeing banking coordination. The decisions of this Council must be unanimous. A Conference of Heads of State is the highest level political body associated with the Union.

At the national level, each member has a local branch of the BCEAO, managed by a national director. A National Credit Committee (NCC) prepares yearly targets for credit expansion, based on expected GDP growth. These targets are reviewed by the Board of Directors, within the context of overall UMOA policy objectives. Since the comprehensive 1975 Central Bank reform, somewhat greater latitude has been allowed each NCC in determining the use and sectoral distribution of credit in response to a country's particular economic conditions.

The overall credit ceiling determined for each country must accommodate both the government and private sectors. The limit on credit extended to the government is set at 20 percent of the previous year's revenues. The balance represents credit to the private sector, but it is important to note that many state enterprises are included in this sector.

The tools traditionally available to the BCEAO are: reserve requirements, prior approval of loans over 30 million FCFA, rediscount policy, and interest rates. In practice, the first instrument has seldom been used. The rediscount policy sets rules by which banks in need of funding can refinance their credits with the BCEAO. This, as well as the prior loan approval policy, has proven to be somewhat ineffective over time, since commercial banks could frequently turn to their foreign correspondents for funds and state enterprises could borrow from abroad independently. An effort introduced in 1980 to increase the effectiveness of both credit limits and sectoral credit distribution has taken the form of minimum and maximum targets for sectoral credit allocation by banks.

Interest rate policies of the BCEAO evolved significantly during the 1970s. From a low interest approach characteristic of most developing countries, the system has moved in the direction of closer alignment with international markets. Changes instituted through the banking reform of July 1975 included both an increase in the basic rediscount rate and the establishment of an interbank money market, to stem the outflow of capital to Europe and improve local financial intermediation. A preferential rediscount rate designed to ensure credit on more affordable terms to priority sectors (agriculture, low-income housing, small and medium enterprises owned by nationals) was also instituted. As of April 1980, the normal rediscount rate stood at 10.5 percent and the preferential rate at 8 percent. Money market rates were raised to the neighborhood of 15 percent in May 1981.[1] Notwithstanding these changes, both money market and rediscount rates remain fixed and are infrequently adjusted, limiting the flexibility of the system. Not until 1980 did rediscount and savings rates become roughly competitive to those in France (see Tables D-1 and D-2).

The 1975 reform of the BCEAO did more than affect the global and sectoral availability of credit. It also altered the role of the institutions within the system, in particular the development banks, in ways to which they have not yet fully adjusted.

The rediscount rate and later sectoral allocation measures were designed to induce commercial banks to participate in lending to the preferred sectors, which had hitherto been the province of the development banks. These measures were balanced by others giving the development banks authority to accept private deposits and offer commercial services. Ideally, the overall goal of such changes was (1) to increase the credit available to those qualifying for preferential treatment and (2) to encourage savings mobilization, increase financial intermediation, facilitate development banks' contact with their clients, and improve their accountability.

In practice, the two-tier interest rate system and the "commercialization" of development banks have had repercussions which may have been unanticipated.

1. The two-tier rate effectively limits the return on savings deposits to something below the preferential rate. This effectively ensures a negative return on savings, since average inflation rates have been running near or above 10 percent. Under these circumstances, it is common for private savings to be sent abroad or diverted into speculative ventures such as real estate. Those savers who do rely on the financial system may be more likely to use commercial banks

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[1] In April 1982, interest rates were raised by 2 percent across the board.

Table D-1. BCEAO Interest Rates

Cateogry	1973	July 1975	April 1980
Central Bank Discount Rate	5.5	8.0	10.5
Lending Rate Spread on SME Loans	1.75-2.50	1.0-3.0	1.0-3.0
Maximum SME Lending Rate	8.0	8.5	11.0
Maximum Normal Lending Rate	11.0	13.0	15.5

Source: International Monetary Fund.

Table D-2. Interest Rate Comparisons

Category	1975	1976	1977	1978	1979	1980
Central Bank Discount Rate						
BCEAO	8.0	8.0	8.0	8.0	8.0	10.5
France	8.0	10.5	9.5	9.5	9.5	9.5
Savings rate						
BCEAO	5.5	5.5	5.5	5.5	5.5	7.5
France	- 6.5	6.5	6.5	7.5	7.5	

Source: International Monetary Fund.

which may be better established and have a better reputation. It also seems likely that savings attracted by development banks in countries with an established commercial banking sector would be both modest and short term under these circumstances.

2. The authorized spread over the basic rediscount rates is a maximum of three points for preferential and five points for normal loans. From the consumer's point of view, this keeps the lending rate for the preferred sector to a maximum of 11 percent.[2] However, it is an obvious disincentive to banks who must rely on Central Bank rediscounts as a major source of funds. Compared to funds mobilized at the current savings rate, Central Bank rediscounts are relatively expensive. Yet they have become a more important source of funds for the development banks, since deposits of government organizations have declined due to economic difficulties in each country.

   For commercial banks, the result of this disincentive effect combined with the sectoral allocation target has been predictable--they limit their exposure in the preferred sectors to strictly bankable projects. The burden of satisfying the bulk of demand for preferential credit remains on the development banks.

3. The reorganization required of development banks in gearing up to provide commercial services has strained their management, personnel, and physical capacity. Instead of being able to specialize and make badly needed improvements in their term lending operations, they have had to scatter their efforts by expanding their services into new areas. Overhead expenses have increased while additional resources have been slow to materialize because of low returns available to savers.

4. The combined impact of the banking reform measures have highlighted a basic dilemma for the development banks: how can they fulfill the role they are still expected to play as development institutions--namely provide longer term credit--while simultaneously facing a change in the term structure of their resources and coping with a situation where they receive a lower return on their riskier priority sector loans.

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[2]This became 13 percent as of April 1982.

In terms of the African Enterprises Program and development bank lending to SMEs in general, the impact of the banking reform combined with ineffective loan guaranty and business promotion measures and economic setbacks has been a reduction of incentives for activity in this sector. Although for most of the period the lending spread available to development banks under the program--5 percent--was equal to that available on nonpreferential loans (see Tables D-1 and D-3), the size of the program as a proportion of total resources was apparently not sufficient to induce the banks to undertake significant improvements in their operations with respect to SMEs. Furthermore, the procedure for Entente Fund disbursements to the banks entails additional transactions costs by creating delays which increase the banks' reliance on Central Bank rediscounting as an interim financing measure. This has reduced the attractiveness of the more generous spread on these loans. In short, it appears that throughout the program period, factors external to the banks themselves have played an important role in limiting the program's success.

Table D-3. African Enterprises Program Loan Spread

Category	1974	1975	1980
Entente Loan to Banks	3.5	3.5	3.5
Maximum SME Lending Rate	8.0	8.5	11.0
Loan Spread	4.5	5.0	7.5

APPENDIX E

THE ENTENTE COUNTRIES AND THE WEST AFRICAN MONETARY UNION

by

Colette Claude

I. STRUCTURE

The five countries of the Council of the Entente (Ivory Coast, Benin, Niger, Togo, and Upper Volta) together with Senegal form the West African Monetary Union (Union Monetaire Ouest Africaine-UMOA). As such they depend on a common Central Bank, the Banque Centrale des Etats de L'Afrique de l'Ouest (BCEAO). They use a common currency (the FCFA franc) freely transferable within the union, pool their foreign reserves, and have a common monetary policy. These features are essential characteristics of any monetary union and are restrictive enough of member nation autonomy that very few multinational unions exist in practice. The UMOA's position is unusual in the sense that, thanks to its developing out of historical ties with France, it benefits from special conditions which contribute to its stability and survival.

Under the cooperation agreement with France, free convertibility of the FCFA franc is assured through overdraft facilities extended by the French Treasury. The BCEAO maintains at least 65 percent of its foreign exchange reserves in an operations account with the French Treasury,[1] and France guarantees the value of these funds in terms of SDRs. The system ideally attempts to maintain balance of payments equilibrium collectively for the UMOA and individually for each country, but a more normal pattern has been for one country's surplus to offset another's deficit. Provisions are made to require remedial stabilization measures when the coverage of currency by reserves falls below 20 percent either for the union or for individual members.

These special provisions have a twofold effect. First, they ensure a level of financial discipline over and above that which might normally be achieved. The external constraint on credit creation has helped to keep inflation to relatively manageable levels. As reflected by IMF statistics for 1975 to 1980, the average rate of consumer price increases was between 8 and 14 percent per year for the five Entente countries (see Table E-1). Second, the free convertibility aspect serves to create an effective hard currency area. This has improved the credit standing of the UMOA countries. From the balance of payments point of view, the union and its backing by the French Treasury have provided an unusual level of financial security for the member countries. So the costs in terms of loss of flexibility in setting individual policies have been compensated to some extent. As will be explained below, however, the relative distribution of costs and benefits is not equal between countries.

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[1]The exchange is fixed at FCFA 50 = 1 French franc.

Table E-1. Index of Consumer Prices and Average Annual Inflation

Country	Index of Consumer Prices 1975	1976	1977	1978	1979	1980	Average Annual Inflation--Compounded (percentage)
Benin[1]	100	108.3	118.9	127.1	140.1	155.4	8.0
Ivory Coast	100	112.1	142.8	161.4	188.2	215.7	14.0
Niger	100	123.5	152.3	167.6	179.8	198.4	12.0
Togo	100	111.6	136.7	137.3	147.6	165.9	9.0
Upper Volta	100	91.6	119.1	128.9	148.2	166.4	9.0

[1]Estimated.

Source: IMF, International Financial Statistics; Benin series reconstructed on the basis of consumer price deflator data.

II. THEORY OF MONETARY UNION

The UMOA system has characteristics which differ in several important respects from some of the features commonly associated with a monetary union. In theory, monetary union in the sense of adopting a common currency and unified monetary and foreign exchange policies in member countries is only one (usually the last) in a series of steps which include trade and fiscal policy coordination. A customs union, creating a preferential tariff area, is often a first step. In turn, customs union ideally implies the existence or creation of complementary economic structures between member countries, enabling the group to take advantage of the economies of scale offered by sectoral specialization of production and local market expansion.

Monetary union is conceived to be a difficult final step in a process of regional unification because, more than any of the other procedures, it implies a true loss of national autonomy. The countries involved in a monetary union must relinquish control of their monetary policy to the common Central

Bank, which sets credit allocations and interest rate ceilings. Individual countries lose the ability to print money to finance their government deficit. Close coordination of fiscal policies is also required in order to help avoid widely differing inflationary pressures which would cause serious distortions of resource flows. Furthermore, since foreign exchange reserves are pooled, individual members lose the option of manipulating foreign exchange policy for domestic stabilization purposes. Exchange rates must be fixed between members and unified against the rest of the world.

These conditions are difficult to meet, but can be greatly facilitated by preexisting economic compatibility between countries. Prospective members of a monetary union ideally should have a fairly well-balanced distribution of accessible natural resources. Economies with similar patterns of growth, employment, trade, and price trends as well as a complementary resource base would find their chances for successful union enhanced.

Mobility of labor and capital would both contribute to and enhance the smooth operation of a monetary union. Nevertheless, such mobility might also require compensating development policies for regions experiencing such resource outflows. This point is discussed further in Section IV below. Measures facilitating the creation of an integrated capital market are an example of encouraging capital mobility. A fairly high level of pre-union trade and complementary production structures--encouraging exchanges between members--are also indicators of compatible economies.

In a development context, it is important to recognize the varying endowments and needs of different countries, to avoid a situation where one member of the union grows at another's expense.

III. ECONOMIC RELATIONSHIPS WITHIN THE UMOA

Historical circumstances and regional conditions in the UMOA have to a large extent conspired to reverse the preferred sequence (trade to economic cooperation to monetary union) prescribed in theory.

In a sense, the creation and operation of the union have been greatly simplified since the countries' currency situation eliminated exchange rate problems both within and outside the union. The currency stability provided by guaranteed convertibility against the French franc is an unusual feature for most African countries. In turn, the discipline required by the reserve requirement and the fixed exchange rate have been instrumental in keeping inflation rates relatively low over time.

The balance of payments constraint has been less stringent for each individual country because of reserve pooling which puts common financial resources at the disposition of members in need of them. Only recently has the Central Bank found itself in deficit with regard to the French Treasury, as all of the countries experienced balance of payments problems simultaneously.

A. Trade

In marked contrast to one condition for a successful monetary union, recorded intraregional trade among UMOA members has not been significant except in the case of Upper Volta. Over the most recent four-year period for which import and export data are available, the share of merchandise exports of the UMOA countries to each other (aside from Upper Volta) was generally less than 10 percent. For half of the countries this share was below 5 percent. The share of merchandise imports from the UMOA was similarly small in most cases. Trade with the other African countries was at least twice the UMOA share, and much more in the case of Niger's exports and Togo's imports. The dominant trading relationship, however, is with France and the European Community (EC). All countries, except Upper Volta and Benin, send at least 60 percent of their exports to this group. Benin's share of exports to the European Community is close to this level in spite of a declining trend. Upper Volta sends an equal share of exports (40 percent) to both the EC and the UMOA, principally the Ivory Coast. In the case of imports, the countries receive at least 55 percent of their goods from the European Community. Niger doubled its share of EC imports between 1975 and 1979, from 44 to 89 percent. The proportion of recorded imports from UMOA countries ranges from 2 to 3 percent for Togo, Benin, and Ivory Coast, to 14 and 17 percent respectively for Niger and Upper Volta (see Table E-2). Not reflected in Table E-2 is the fact that Ivory Coast, as the most developed country in the region, enjoys the most active trading relationships with its UMOA partners.

B. Competitive Industrialization

The poor record of intraregional trade reflects the similar production structure of these primarily agricultural countries and the fact that by and large they have been producing competitive rather than complementary products and raw

Table E-2. Direction of Recorded Merchandise Trade
(four-year percentage average shares of total trade)[1]

Country	EC[2]	Africa (of which UMOA)	Western Hemisphere	Other
		Exports		
Benin (1975-1978)	58.8	23.0 (11.0)	1.0	(17.0)
Ivory Coast (1976-1979)	60.5	12.4 (4.9)	12.2	14.8
Niger (1975-1977)	68.8	24.9 (3.9) Nigeria (19.9)	1.0	--[3]
		ECOWAS[4]	U.S.	
Togo (1976-1979)	67.5	8.0 (3.6)	2.2	22.0
Upper Volta (1977-1980)	39.2	44.8 (39.5)	--[3]	(14.4)
		Imports		
Benin (1975-1978)	57.0	8.7 (3.3)	10.5	(17.0)
Ivory Coast (1976-1979)	58.8	6.5 (3.0)	11.0	23.6
Niger (1975-1977)	55.4	24.2 (14.0) Nigeria & Algeria (8.8)	8.3	(5.9)
		ECOWAS[4]	U.S.	
Togo (1976-1979)	62.0	8.6 (2.1)	5.2	23.8
Upper Volta (1977-1980)	56.8	19.6 (17.5)	12.3	(8.1)

[1]Three years for Niger.
[2]European Community.
[3]Less than 1 percent.
[4]Economic Community of West African States.

Source: International Monetary Fund.

materials destined for processing and consumption outside the Union. Table E-3 shows that in 1978 combined agricultural activities accounted for roughly 35 to 45 percent of GDP for Upper Volta, Benin, and Niger, and approximately 25 percent for Togo and Ivory Coast. The share of manufacturing per se was modest, between 5 and 12 percent. This is not surprising in light of the fact that industrialization of the region dates only from the early 1970s.

Before that time, in spite of substantial investment by France and the EC in member countries, the lack of a conscious policy of economic integration to help build up ties within the union was reflected in the development of either traditional export agriculture or small manufacturing industries designed to meet local needs rather than to satisfy larger markets within the union. Economic gains from intraregional specialization were not achieved. Instead of establishing strong multilateral relationships, the UMOA countries found themselves at the outset more involved in bilateral relationships with France and more recently the EC.

This bilateral rather than multilateral, intraunion, pattern also contributed to restraining early opportunities for significant intraunion flows of labor and particularly of capital. Since most countries disposed of surplus unskilled labor there was little scope for mobility of complementary labor. Similarly, no mechanism of central allocation of investment between countries to encourage union-oriented infrastructure and production was put into place. Capital movement between member countries was theoretically free, but low interest rates, designed to induce investment, had the effect of encouraging savers to look for better returns abroad, thus creating a shortage of investment funds within the union.

In addition, almost all financial institutions had their head offices in France and the movement of funds in and out of a member country almost invariably occurred through France. Even transactions between two branches of the same bank in two different countries were channeled through the head office in Paris. Today, rudimentary communications networks still make intraunion transactions difficult.

C. Increasing Regional Disparities

As development has proceeded in the individual countries, they have become more diverse in terms of economic performance. Ivory Coast, and to a lesser extent Togo, have surged ahead, quadrupling and almost tripling their respective inflation adjusted income (see Table E-4A). Niger has suffered a decade of declining real income, reversed only in the late 1970s with

Table E-3. Sectoral Shares in GDP, 1978

		Percentage									
Country	GDP (billions of FCFA)	Agri-culture	Livestock (Forestry, Fishing)	Mining	Manufac-turing	Utilities	Construc-tion	Commerce	Transport Communications	Government	Other Services (of which taxes)[1]
Benin	168.6	33.0	10.4	--[2]	5.0	1.0	3.2	21.0	7.5	7.6	11.8 (9.4)
								← 47.0 →			
Ivory Coast	1,783.0	← 25.6 →		--[2]	11.8	1.0	8.8	(25.0)	(6.9)		(7.0)
Niger	368.5	26.0	20.5 (4.5)	9.8	← 7.0 →		5.0	12.0	3.8	6.9	9.0 (4.2)
Togo	193.6	← 24.4 →		9.8	6.4	1.7	9.1	16.0	7.4	← 25.0 →	
Upper Volta	212.5	21.7	13.3	--[2]	11.6	1.0	4.0	15.0	6.0	11.8	15.2 (10.5)

[1] Taxes as a percentage of GDP are included in the functional category "other services."
[2] -- = Negligible.

Source: IMF; UN, Monthly Bulletin of Statistics, March 1982.

Table E-4. Real GNP and Population, 1960-1980, and Growth Rates, 1970-1980

A. Real GNP (billions of FCFA; base years differ)

Country	1960	1965	1970	1975	1980
Benin	75.5	89.1	100.7	115.8	142.7
Ivory Coast	438.8	667.9	945.1	1,286.0	1,789.2
Niger	79.9	108.0	104.8	93.7	136.8
Togo	58.8	87.7	123.9	150.4	163.7
Upper Volta	67.5	75.1	88.5	94.5	97.0

B. Population (millions)

Country	1960	1965	1970	1975	1980
Benin	2.0	2.3	2.6	3.0	3.5
Ivory Coast	3.5	4.2	5.0	6.8	8.6
Niger	2.9	3.5	4.0	4.6	5.3
Togo	1.2	1.7	2.0	2.2	2.5
Upper Volta	4.2	4.5	4.9	5.3	5.7

C. Average Annual Growth Rates, 1970-1980 (compounded)

Country	GNP	Population	GNP per capita
Benin	3.2	2.6	0.6
Ivory Coast	6.0	5.1	0.9
Niger	2.5	2.6	-0.1
Togo	2.6	2.2	0.4
Upper Volta	0.8	1.5	-0.7

Source: World Bank Tapes.

a remarkable spurt of growth. Upper Volta's growth has slowed steadily, while Benin's has fluctuated less than the other countries'.

Intercountry comparisons of macroeconomic data for the Entente countries are complicated by several factors. First, due to migration of workers within the region, figures relating to gross national product (GNP), which include remittances, underrepresent the value of actual domestic production (GDP) in the economy from which remittances are sent. Conversely, GNP figures exceed GDP in the receiving country. Ivory Coast and Upper Volta are the prime examples of remittance sending and receiving countries. In 1980, the contribution of remittances to Upper Volta's GNP was approximately 4.5 percent, while Ivory Coast's GNP was almost 3.5 percent less than its domestic production due to the same factor.

Second, cross-country comparisons of inflation-adjusted data in particular are not possible because of the different base years used in constructing each series. Thus, while the series on real GNP in Table E-4 yields meaningful comparable information on individual country growth, neither the GNP figures nor any real GNP per capita figures can be used for cross-country analysis.

A rough measure of comparison in economic performance can nevertheless be found in average annual growth rates of GDP (taken over five-year intervals for simplicity). Combined with a tabulation of average annual GDP deflators and GDP per capita at current market prices, these data indicate the thrust of the relative changes which have occurred among the Entente economies. Table E-5 provides some insight into these changes. It reflects clearly the predominance of Ivory Coast, both in high real growth and in per capita income. Upper Volta is singled out for remaining consistently at the lowest level in per capita terms, and for a declining rate of real GDP growth in the 1970s. Niger's stagnant decade (1965-1975) and its post-1975 recovery clearly show up, as do the steady decline in Togo's real GDP growth rate over the period and Benin's come-back of the late 1970s.

What the data do not reveal directly is the slowing and actual reversal in growth of real GDP in Togo starting in 1978, and a similar slowing trend in Ivory Coast in 1979. Steady population pressure, particularly in Ivory Coast, contributed to an effective decline in per capita GDP in these two countries. For the decade, however, the trend in per capita income has produced small gains in Ivory Coast, Benin, and Togo, sustained decline in Upper Volta, and a decline which shows indications of being reversed in Niger.

Table E-5. GDP Per Capita and Growth of Real GDP, 1960-1980

A. GDP Per Capita (FCFA; current market prices)

Country	1960	1965	1970	1975	1980
Benin	21,350	23,783	27,308	37,600	66,743
Ivory Coast	40,200	56,381	82,800	122,721	258,860
Niger	21,552	26,200	26,025	32,348	75,509
Togo	24,750	27,000	35,100	60,136	89,240
Upper Volta	13,048	15,578	17,429	23,943	40,561

B. Growth of Real GDP (annual average; percentage)

Country	1960-1965	1965-1970	1970-1975	1975-1980
Benin	3.4	2.8	2.0	5.0
Ivory Coast	10.6	8.4	6.4	8.0
Niger	7.3	0.0	0.01	8.3
Togo	12.1	7.5	4.0	2.9
Upper Volta	3.1	3.0	1.0	0.8

C. GDP Deflator (annual average; percentage)

Country	1960-1965	1965-1970	1970-1975	1975-1980
Benin	2.3	5.1	10.0	16.4
Ivory Coast	3.0	6.6	16.0	5.4
Niger	2.0	2.9	9.9	25.5
Togo	-1.3	3.0	13.7	11.0
Upper Volta	2.4	1.4	8.7	15.6

Source: World Bank Tapes.

Data on national savings as a proportion of GNP reflect the differences in income and growth between countries. Table E-6 shows that the savings ratios in Ivory Coast and Togo have been consistently above those in the other countries, which is what one would expect of the best economic performers.

These data are of course only indicative, but their net effect is to highlight the disparities in economic performance among countries which are expected to function under uniform rules and policies. The monetary union structure has not been accompanied by the kind of supportive economic measures which would help the countries move toward integration on the productive plane. Thus, it is not surprising to find the countries relatively better endowed with natural resources making faster advances. In the absence of concerted regional development planning to help retarget resources to the relatively more depressed areas, structural imbalances and disparities will continue to grow. Under these conditions, the constraints posed by the broadly uniform monetary policies of the union may contribute to the economic problems of its members, unless these policies can somehow be adjusted to be more responsive to individual structural and financial situations.

IV. UMOA AND REGIONAL DEVELOPMENT

The preceding sections have attempted to highlight the basic economic patterns which underlie the UMOA system. It is instructive now to think in highly simplified terms about the resource flows within the system as a whole since this will illustrate the effect of disparate development trends on its component parts.

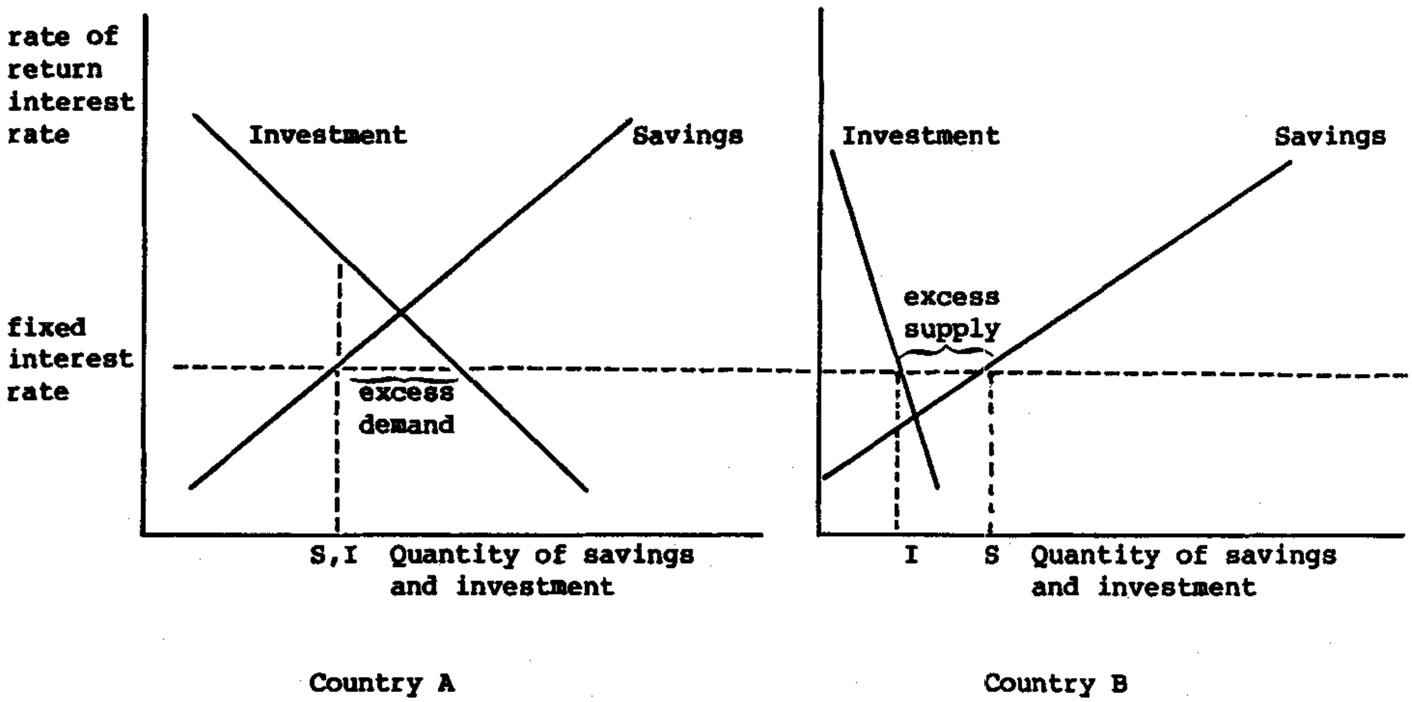
Let us therefore assume a union of only two countries, A and B. Country A is well-endowed in physical and skilled human resources and enjoys many investment opportunities. Country B is poorly endowed; its labor force is unskilled and its investment opportunities severely limited. Monetary union between A and B implies a common currency, the same fixed interest rate, and free capital and labor flows. Since A and B are both open economies, the interest rate is set at a level intended to avoid capital outflows to the rest of the world. At this level, given the respective investment schedules in each country, there is excess demand for savings in Country A and excess supply of savings in Country B (see Chart E-1).

Thanks to capital mobility, savings will flow from B to A, enabling expansion of investment there. As productive investment increases in A, its real capital stock increases and growth occurs. In B, however, as long as investment prospects are still poor, little change will take place in the capital

Table E-6. GNP, Savings, and Investment, 1960-1980
(billions of FCFA; current market prices)

Country	1960	1965	1970	1975	1980
A. Gross National Product					
Benin	42.3	54.5	70.2	115.8	236.6
Ivory Coast	131.5	220.5	388.3	807.3	2,149.4
Niger	62.8	91.2	101.6	138.6	381.8
Togo	29.1	43.8	69.1	131.7	221.1
Upper Volta	57.5	71.8	89.7	131.2	241.7
B. Gross National Savings[1]					
Benin	3.2	1.4	4.4	-2.8	13.7
Ivory Coast	14.9	31.9	70.5	161.4	445.1
Niger	7.6	7.4	5.9	3.0	63.7
Togo	0.6	5.5	8.6	12.9	28.3
Upper Volta	0.5	3.2	3.8	0.1	5.8
C. Gross Domestic Investment					
Benin	6.4	6.3	10.8	19.8	57.0
Ivory Coast	20.5	45.0	91.4	187.3	633.9
Niger	7.8	13.9	18.7	34.0	117.0
Togo	3.2	10.3	10.6	36.6	57.3
Upper Volta	5.2	6.8	9.7	35.1	54.4
D. Saving/GNP Ratios (percentage)					
Benin	7.6	2.6	6.3	(-)2.4	6.0
Ivory Coast	11.3	14.4	18.2	20.0	20.7
Niger	12.1	8.1	5.8	2.2	16.9
Togo	2.1	12.6	12.4	9.8	12.8
Upper Volta	0.9	4.5	4.2	--[2]	2.4

Chart E-1



Explanation of Chart E-1:

The investment schedule reflects a ranking of projects competing for funds according to their economic rate of return. The savings schedule reflects the quantity of savings which will be forthcoming at a given interest rate. In a perfectly competitive economy, the intersection of both schedules determines the market rate of interest and the equilibrium level of savings and investment. When the interest rate is fixed by the monetary authority, the amount of savings available at this rate is determined by the savings schedule. The level of investment then depends on the amount of savings available to fund investment projects.

This example assumes, for Country A, a case where the common union interest rate is fixed at a level lower than the competitive market. This induces a greater demand for investment than would occur at the competitive rate. In fact, investment is restricted by the shortfall of savings at the fixed rate. A's problem is to shift its savings schedule to the right in order to satisfy the demand for funds for investment.

In Country B, the fixed interest rate is higher than that which would prevail under competition. B's problem is to increase the quantity and quality of its investment projects. Improvements in physical infrastructure and human capital could help to shift the investment schedule to the right, indicating a higher return for every level of investment.

In the monetary union, freedom of capital movements allows the excess supply of savings to flow from B to A, helping to satisfy A's excess demand. B's needs for more productive investment are not addressed.

stock, and growth will be low or nonexistent. As a result of relatively greater labor intensity and poorer technology and resources, wages in B will be lower than in A. This will induce labor migration--theoretically until the returns to both labor and capital are equalized in each country if the same production function is assumed for both.

As labor migrates freely in search of higher returns elsewhere, the standard of living will increase in B, since fewer and fewer of its workers stay behind to share the country's product. The ratio of labor to capital in B will decrease, diminishing capital's relative share of production. At the same time A's standard of living will also decrease unless productivity there increases proportionately to the population inflow. If the problem to be solved is to encourage the development of B as a viable entity within the union, which can contribute to overall union growth, some way must be found to improve the productivity of investment there, shifting out its investment schedule and spurring growth.

Increasing the interest rate, which in A would call forth an increased quantity of savings and facilitate funding of investment projects, is not a solution for B: as can easily be seen from the chart, assuming no other changes, such an increase would result only in greater excess supply.

This simple model is instructive because it highlights the tension created between domestic goals (increasing GNP per capita for B, maintaining or increasing it for A) and union membership (increasing GNP per capita for both in a cooperative fashion, which implies B will be better off and A may be somewhat worse off than if it followed a strictly independent course). In this example, B needs both an inflow of basic resources and the means of increasing the productivity of investment. If these resources do not come from A, they may be available from the rest of the world. Or, assuming A represents the "other members" of a multicountry union, a mechanism might be put in place to help redirect union resources toward B. B's productivity could be enhanced by substantial infrastructure development projects--in irrigation, transportation, communications for example--as well as by human capital development. Improving investment opportunities in B in this manner will increase its chances of developing rather than falling further and further behind A.

The structure and nature of the UMOA has limited its capacity to address the issue of disparate growth among its regions because it lacked from the start the complementary economic underpinnings necessary to help the system develop as a unit. Only recently has some recognition been given to the need for a regional development effort. The creation in 1975 of BOAD, the UMOA's regional development bank, which mobilizes funds from the union as well as from abroad, is a step in the right direction. However, it is not yet clear that the need for centralized--or at least carefully coordinated--economic planning designed to equalize the development potential of the regions is perceived as essential. The question may legitimately be raised whether the UMOA can achieve standing as a viable entity without making a greater effort on the economic front to ensure viability of its members.

APPENDIX F

FINANCIAL ANALYSIS OF THE AFRICAN ENTERPRISE PROGRAM

by

Warren Wolff

I. THE PROGRAM DESIGN

The African Enterprise Program (AEP), providing credit to small- and medium-size enterprises (SME), is a large, complicated, high-risk program that should be supported by an experienced direct-hire staff that is knowledgeable in credit work. AID should remain constantly in the management forefront. The program does not now have adequate direct-hire staff, but relies on U.S. contractor advisors (paid by AID but who report to the Entente) to manage the program. Good management was evident during the early years of the program, but fell off in recent years and the performance of the program reflects it. Several design deficiencies have contributed to management problems, which hurt the program. The deficiencies are discussed below.

A. Institutionalizing the Entente African Enterprise Program

The assumption that the Entente Fund would be an effective institution for administering an intermediate credit program was faulty. The Entente Fund is an important political organization, but it is not a financial institution; after eight years it gives little hope of institutionalizing the AEP, which had been the expected outcome. If the program were to be designed today, it should be channeled through a regional bank, such as the African Development Bank (ADB) or the West African Development Bank (BOAD).

As it stands today, the AEP is an Entente Fund "cell," temporary in nature and solely dependent on a single donor, AID. The Entente Fund has tried without success to attract other donors for SME lending. Under the present arrangement, when the AID money runs out, the "cell" disappears and so does the program. No other donors are prepared to take over, nor are any Africans being trained to replace the U.S. advisors. It is a one-shot temporary program instead of the permanent revolving program that AID had envisioned when it was authorized.

B. Entente Fund Contribution

Since the Entente Fund is a "multidonor and regional project," the general 25 percent borrower contribution rule did not apply to this project (FAA Section 110). The contribution rule should have been required in the program, because a borrower will monitor a credit program more closely if its funds are involved. At present, AID money finances 100 percent of the loans to the development banks. The AID funds could have been leveraged by requiring a contribution from the Entente, contributions from the development banks, if possible, and some contributions from the borrowing entrepreneurs, thereby generating a much larger "revolving fund" perpetuating financing to the private sector.

The Tranche II Project Paper spelled out a proposed Entente Fund contribution for technical assistance of 30 million FCFA ($150,000) per year for three years, or atotal of $450,000, plus $1,650,000 in reflows, a total of $2.1 million over a three-year period. (The program is now in its sixth year.) This was not, however, required by the Loan Agreement. The actual Entente Fund contribution over the past five years averaged about 60 million FCFA per year, or a total of 281 million FCFA ($1,247,000) over this period. The contribution is confined to financing local costs (housing, travel, per diem) of the U.S. advisors. No reflows for technical assistance have been used to date, even though this is a legal requirement. In the earlier years of the program, the Entente Fund provided technical assistance resources for training, seminars, and project-specific requests, but this is not being done today.

The Entente Fund is a wealthy, liquid, and profitable institution.[1] Currently, the Fund receives annual contributions to its capital of 668 million FCFA ($2.4 million) from the member countries. As of December 31, 1980, the capital was 9.2 billion FCFA (approximately $40 million, 225 FCFA = U.S. $1.00), all of which is deposited to interest-bearing bank accounts in France. Interest on capital amounted to 1.1 billion FCFA (approximately $4 million) in 1980, and is used to cover administrative expenses of the Entente Fund secretariat.

Another source of income is the annual fee (not to exceed 0.75 percent) that the Entente Fund charges for the issuance of guaranties. This is also used to cover administrative expenses. The Entente Fund has the authority to guarantee investments of an "economic nature" up to 10 times its capital (that is, 10 times 9.2 billion FCFA or 92.3 billion FCFA). As of

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[1]The Entente should be requested to submit annual balance sheets and profit and loss statements. An informal attempt was made to obtain financial statements during the evaluation of the AEP, but requests from the team were refused on the grounds that they were not specifically included as a requirement in the AID Loan Agreement. AID has extended the Entente Fund overall $66 million in loans and grants, an amount that should produce without question and without a specific legal requirement, the Entente financial statements.

December 31, 1980, outstanding guaranties totaled 8.1 billion FCFA ($3.6 million) only 9 percent of its guaranty authority. To date, only public or semipublic projects have benefited from Entente Fund guaranties.

The Entente Fund also earns income on the interest spread of its reloans of AID funds to the development banks (1.5 percent--10 years; 0.5 percent--30 years) and is permitted to use reflows to the Special Accounts "for reasonable administrative and overhead costs." Considering the Entente's income and the need for large inputs of technical assistance, its contribution is minimal and really not responsive to either the program objectives or to its problems.

C. Special Accounts

There is no specific requirement in Section 5.02 of the Loan Agreement requiring the Entente Fund to relend excess funds (reflows--loan repayments from the development banks) accumulating in the Special Accounts to the development banks, thereby creating a permanent, revolving credit program with the development banks. The situation that exists now is that the Entente Fund will receive loan repayments from the development banks (all government obligations at minimal risk), all of which will be deposited to the Special Accounts. Section 5.02 of the Loan Agreement (see Annex 1) requires the Entente to deposit all repayments of its loans from the development banks (and income derived from such payments) to one or more Special Accounts in "reputable" banks for (1) debt servicing of the AID loan, (2) reasonable administrative and overhead costs, and (3) "general purposes in support of African enterprises in the Entente countries."

The Entente Fund is using the Special Account funds only to amortize the AID loan. One small payment was made for administrative costs (salaries). No funds have been used for technical assistance. Funds are now accumulating in the Special Accounts. They are being deposited in high-yielding time deposits with French and U.S. banks. As of June 30, 1981, the Entente Fund reported that "profits" (free funds after amortizing the AID loan) amounted to $1.5 million (see Annex II).

A look at the magnitude of the funds that could accumulate in the Special Accounts highlights the seriousness of this issue. In early 1979, the Entente Fund contracted a U.S. consultant to prepare financial projections on the amount of reflows accumulating in the Special Accounts over the life of the AID loan ($17.5 million). The projections assumed an interest rate of 6 percent. After the evaluation team returned to AID/Washington, the Africa Bureau Controller's Office revised the projections using the rate of 12 percent, reflecting the current market. The revised projections, while not precisely calculated, nevertheless give a clear picture of the huge amount of money (profits) that will be accumulating and that could remain in the Entente Special Accounts after the AID loan has been fully repaid, assuming no funds were withdrawn for administrative costs or for technical assistance. A summary of the projections (using a 12 percent interest rate) shows the following Special Accounts balances in U.S. and French banks:

December 31, 1981	$ 1.7 million
December 31, 1982	$ 2.6 million
December 31, 1985	$ 5.5 million
December 31, 1990	$ 11.3 million
December 31, 1995	$ 20.8 million
December 31, 2000	$ 37.7 million
December 31, 2010	$113.5 million
Final Payment to AID -- December 31, 2017	$243.6 million

D. Definition of SME

The AID program never defined the term SME and this has caused confusion. There are several definitions of SME, depending on the country. The Central Bank has its own definition and so does the World Bank and the African Development Bank. Under the AID program, subloans financed a wide range of projects, including some very large ones, which were not SMEs. AID financing criteria were too general, making it difficult to turn down many projects. All parties (AID, Entente Fund, banks, Central Bank, Promotion Centers, and so on) should have agreed to a definition of SME at the beginning of the AID program.

E. Acceleration Clause

AID loan agreements usually contain an acceleration clause when loans are extended to revenue-producing institutions such as the Entente Fund, so repayments can be accelerated if income increases, thus justifying a shorter amortization period. No acceleration clause is contained in the Entente Fund/AID agreements. The Entente Fund received AID's most concessional terms--2 percent for 10 years, 3 percent for 30 years--but clearly has the ability to repay in a shorter period. AID may wish to renegotiate an acceleration clause in the agreement.

II. AID LOAN CONDITIONS

The AID Loan Agreement contains important conditions and covenants. Compliance was not maintained with some of them. In recent years, the program has lacked AID guidance and direction. As a result, the control of the program drifted over to the Entente Fund, mistakes were made, and essential AID loan conditions were not satisfied or heeded. A basic purpose of the AID/Entente Fund program--to strengthen the long-term capacity of the national development banks in the Entente area--has not been achieved. There are several reasons for this, some within the control and influence of the Entente Fund program and some which are not, such as effective government Promotion Centers and Guaranty Funds. An important area, very much within the program's control, relates to effective monitoring and management. The program could have come closer to reaching its purposes if there had been much tighter management control. Some examples are described below.

A. Loan Agreement, $7.5 Million, Dated March 9, 1973

1. Section 1.02(b): The Project

This section defines the uses of reflows credited to the Special Account. One includes "the financing of technical assistance to Banks and to the subborrowers." No technical assistance has been financed to date from reflows.

2. Section 5.02: Special Accounts

This section defines the uses of funds credited to the Special Accounts and gives AID the right to ask for reports of these funds. It also requires that the Special Accounts be maintained "free and clear of all liens, charges, and encumbrances." The funds are not being used for technical assistance, reports are not being received, and it is not known if the Entente Fund is complying with the "no lien" requirement.

3. Section 6.01(e): Plan for Allocating Loan Funds to the Development Banks, Providing Technical Assistance to the Banks and/or Subborrowers, and Disbursing Funds in Special Account for Purposes of Project

This was a condition precedent and was accepted as such to permit disbursements, but was not fully implemented on a continuing basis after its initial acceptance.

4. <u>Section 6.02(f): Plan for Technical Assistance to Banks and Subborrowers or Evidence That Banks Have Technical Capacity</u>

This was a condition precedent and was accepted as such but was never fully implemented.

5. <u>Section 7.08: Maintenance and Audit of Records</u>

Adequate books and records were not available to the team either at the Entente Fund or with the banks. It may not be possible to trace the <u>full</u> use of funds disbursed through the AID Loan Agreements, the Entente Fund Reloan Agreements, and the banks' subloan agreements.

There is probable noncompliance with the requirement calling for "economic, technical, and financial analysis made with respect to each subloan financed with AID funds."

6. <u>Section 7.09: Reports</u>

There is noncompliance with this condition and AID requirements spelled out in Implementation Letter No. 13, dated February 25, 1976. REDSO has not been receiving status reports pursuant to these requirements for Tranche II activity. No reports were submitted for the period June 30, 1980 to June 30, 1981. At the time of the evaluation, REDSO was not up-to-date about the financial condition of the development banks, the status of the AID-financed subloans or the special covenants of the Loan Agreement.

Neither the Entente nor the banks have complete and current subloan reports. It is not known if subloans were actually used for the purpose stated. Little is known about the essential subject of loan delinquencies, which are excessive; in some banks, they are out of control. Some subborrowers cannot be located. The bank reports to the Entente Fund are outdated by at least six months and contain errors and inconsistencies. The Entente Fund subloan records differ from those of the banks. After eight years, the banks are unable to put together any type of meaningful status report. This is an acute problem, reflecting slack management control. Very little hard or timely information exists about the program. The Tranche II Project Paper stated that the banks had the technical capacity to administer the AEP program. Today, four of the six banks do not have that capacity. This is not entirely the banks' fault. AID's reporting requirements were not made clear to the Entente and the banks, and strict compliance was not stressed or enforced. Technical assistance should have been provided to help the banks comply with the reporting requirements.

B. First Amendment, $10 Million, Dated March 29, 1976

1. Section 3.01(e): 25 Percent Country Loan Limit

Under Tranche I, the Ivory Coast received 46 percent of the AID loan. Under Tranche II, a 25 percent country limitation was included as a covenant to prevent a repeat of the Ivory Coast domination of the program. Pressure will arise to give the Ivory Coast banks more AID money, regardless of the 25 percent limitation. The poorer countries should get priority attention, not Ivory Coast, the richest country. REDSO must be on the alert to ensure compliance.

2. Section 3.01(f): Revolving Funds in Reloan Agreements

The banks attempted to comply with this requirement to establish Revolving Funds made up of loan repayments from the borrowing SMEs. The Revolving Funds are to be used to make additional subloans to eligible subborrowers, but are not subject to all the restrictions imposed on initial subloans. Revolving Funds were to be in a separate account from initial subloan funds for a period of five years, or equal to the grace period on the payment of principal to the Entente Fund. The purpose of the Revolving Fund is to extend the beneficial effect of the project beyond the initial subloans and increase the number of eligible subborrowers. The Entente was to assist each bank in establishing a Revolving Fund and in reviewing its operation periodically. In most cases, the Revolving Funds were established (BND in Upper Volta did not); however, Entente reports do not give any information about their status, pursuant to AID reporting requirements (Implementation Letter No. 13). The banks were willing to comply, but apparently did not receive sufficient help from REDSO/the Entente Fund. The impact of the funds has never been evaluated. There is only partial compliance with this section.

3. Section 3.02: Subloan Approvals

Any subloan in excess of 60 million FCFA must be approved in writing by REDSO. REDSO may not have exercised its prior approval authority in all instances. Subloans over 60 million FCFA should not be financed without the written approval of REDSO, pursuant to this section.

4. Section 3.05: Subloans for Agricultural, Rural Development, and Nutrition-Related Activities

The Loan Agreement required $2 million of AID funds for financing. As a result of inadequate records and reports, it is impossible to determine whether there was compliance with this requirement. Considerable confusion exists among the banks concerning this requirement and the degree of flexibility allowed in complying with it, which apparently was never carefully explained by REDSO. This should have been done at the beginning of the Tranche II loan; if it had, the banks could have complied with this condition. Many agricultural and rural development projects have been financed, but Entente reports are inadequate, as are the banks' records. Thus, it is not clear whether this requirement is being satisfied or not.

5. Section 8.01(a): $1.5 Million (15 Percent) Required for U.S. Procurement (Code 941)

Under the Tranche I loan, BIDI was required to use its $2.5 million Entente Reloan to finance $1.5 million of Code 941 (U.S.) imports, the entire requirement of the AID loan.

Under Tranche II, the AID Loan Agreement requires the financing of a minimum of $1.5 million for Code 941 procurement. At the time of the negotiation of BIDI's Reloan Agreement ($1 million) with the Entente, BIDI complained about the Code 941 condition, which apparently (files are incomplete) led to a REDSO plan (Abidjan 11639--December 14, 1976) approved by the Assistant Administrator for Africa on January 21, 1977. The plan involved the participation of all six banks in the program. Each bank was to receive an initial loan of $1 million--without the Code 941 requirement--which BIDI and CCI received, with the provision in each Reloan Agreement that as soon as each bank had committed the initial amount, it would be entitled to receive an automatic increase for an amount equivalent to the value of the subloans financing Code 941 procurement. In this manner, the Entente/REDSO would retain control of $4 million ($6 million having already been executed to the six participating banks), thus ensuring that adequate funds would be available to comply with the Code 941 requirement as well as the requirement for financing $2 million of Tranche II loan in agricultural/food and nutrition subloans.

Each participating bank was well aware of the Code 941 requirement. Implementation Letter No. 13 highlighted the procurement condition. The Entente met with all development banks in Lome in July 1976 to explain AID regulations and procedures to be followed for complying with the requirement. Entente management was available to assist the banks in dealing with Code 941 compliance.

BIDI has the capability of complying with Code 941, having financed $1.5 million under Tranche I. It does not seem fair for the banks in the poorer countries to be on equal footing with BIDI since their projects are much smaller and with a limited need for imported items, especially from Code 941. It seems that BIDI should have been given the responsibility for meeting the full Code 941 requirement for Tranche II, as it had for Tranche I. To conclude, the evaluation team had limited time to focus on the Code 941 issue. The lack of records and reports about Code 941 compliance did not help. There has been no compliance to date with the Tranche II conditions. The Code 941 requirement was not well managed, and while it was probably an onerous requirement to begin with, REDSO should have taken action long before this evaluation to resolve the issue, removing the existing constraint to disbursements.

6. Section 8.01(b): Procurement from Code 935 Countries

This section states that up to 10 percent of the AID loan, or $1 million, may be used to finance procurement for the transport sector (automobiles) from Code 935 countries. In the absence of adequate subloan books or records, the amount of Code 935 procurement financed with AID funds is unknown.

7. Section 11.1(d): Detailed Description of the Technical Assistance Program

The provision of technical assistance was a major component of the program. The document submitted to meet this condition precedent was a well prepared 10-year plan directing a $10.8 million "comprehensive, continuing and integrated" technical assistance effort at three distinct levels: national development banks, promotion centers, and African enterprises. The document was accepted by REDSO as satisfying the condition precedent. The plan has not been implemented.

The need for technical assistance is a major issue. Its lack has dealt the program a crippling if not fatal blow, and is the result of poor program management. A major technical assistance program is at least as important to the success of the Entente Fund program as is the loan money itself to the entrepreneurs. The plan had called for specific contributions from FAC ($205,000), the Ford Foundation ($130,000), UNIDO ($1,465,000), and "other donors." Contributions from other donors were never made. Nonetheless, ample alternative resources existed to launch the technical assistance program. Resources include the reflows, Entente Fund earnings, the AID grant, and UNIDO and FAC contributions. The technical assistance program could have and should have been rescued. The plan called for establishing a Regional Center for Business Administration which was expected to be self-financing by 1984, receiving its funding from center charges and Entente Fund government contributions. Projections on reflows to the Special Accounts show that the proposed technical assistance program could probably be financed out of reflows alone. To date, reflows have not financed any technical assistance efforts.

There are other areas of partial compliance with AID loan conditions dealing with technical assistance plans. These relate to Tranche I and include the following:

> Section 6.01(e)--Entente Fund plan for technical assistance to the banks and subborrowers and for disbursing funds in the Special Accounts for the purposes of the project.

> Section 6.02(f)--An Entente Fund/Bank plan to provide technical assistance to subborrowers and the Banks or evidence that the Banks have established technical assistance capacity as part of its operations.

Time did not permit the review of these plans, which were definitely focused in the right direction. Apparently they were implemented only during the early years of the program.

The continuous thread running through this project is that if a project component is not AID-financed, it may not get financed. Unfortunately, this is the case with technical assistance. Thus, only a small portion of the vast need is being financed.

III. MANAGEMENT

In addition to compliance issues, the Entente Fund program suffers from poor, inattentive management. The evaluation team was in West Africa for only about five weeks, but encountered several areas indicative of inadequate management practices. Examples follow.

A. U.S. Advisors to the Entente

The frequent turnover of AID-financed advisors has been disruptive and at times has left the program almost without any direction. The project manager's position was vacant for two and one-half months during 1981. At a minimum, there should have been a two- to three-month transition overlap between the outgoing and incoming project managers. The management advisor position (the number two position) remained unfilled for seven months in 1981. Furthermore, the advisors have been inexperienced both in AID procedures and in banking methods. They have been so overwhelmed by the need to learn about the program, respond to crises and problems and other procedural matters, that they have hardly begun to take on their management role by the time their term is over, and the cycle repeats itself. In the meantime, no one is really responding to the enormous needs of the development banks and the entrepreneurs or the proper disposition of AID funds and the program slips deeper into trouble. The U.S. advisors are being funded by grants at a cost of $1.9 million, but the program has not resulted in good project performance and is not cost effective (see Section IV.H).

Compounding the problem, in recent years the REDSO project manager needed help in handling the complex program. The program suffers from lack of overall AID Mission involvement and accountability.

B. AID Disbursements

Responding to an Entente Fund disbursement request dated September 21, 1980, REDSO credited the Entente Fund's bank account in Abidjan on October 9, 1980 with 298 million FCFA ($1.4 million), representing the projected program needs of the development banks for a three-month period (90 days). At the time of field work by the AID evaluation team in September and October 1981, 12 months after the disbursement, 167 million FCFA ($796,737) remained in the account and 131 million FCFA ($622,205) had been disbursed to the program. The AID disbursement was credited to an interest-earning account, reportedly at 6.5 percent. Thus, the Entente Fund has and probably continues to earn interest on the AID disbursement. Several observations about this transaction are warranted.

1. The Entente "three month" projections were overestimated. The total disbursements to the program for the above 12-month period were 44 percent of the three-month request.

2. Borrowers are not permitted to earn interest on disbursed AID loan funds. AID should determine whether the interest that has accrued (and is still accruing) on AID disbursements should be refunded.

3. The AID disbursement was an advance of funds, which has probably been partially liquidated. Eventually, the advance should be supported by a listing of all subloans financed by each bank equal to the total advance.

C. Bank Cars

The Entente Fund used AID funds to finance an automobile for each development bank in Togo, Benin, Upper Volta, and Niger. The purchase of cars is not an eligible expense for AID financing. (The four cars cost $60,000.) AID should consider whether the Entente Fund should refund this amount.

D. Reloan Agreement

The development bank in Benin signed a Reloan Agreement with the Entente Fund in November 1979. The agreement was lost and apparently both the bank and Entente Fund forgot that such an agreement had been signed. The signed agreement surfaced about two years later, in August 1981, but two years were lost in the financing of SME projects in Benin.

E. Code 941

Acting on incorrect instructions from REDSO, the Entente Fund inadvertently notified all the development banks by letter (August 20, 1981) that the list of Code 941 countries had been modified to include developed countries, such as Japan, West Germany, and Italy. The evaluation team discovered the erroneous Code 941 interpretation. We understand that this letter has been rescinded.

F. BTD-CNCA Loan

The development bank in Togo, the BTD, has made informal arrangements with the government bank, CNCA, to finance its agricultural projects using Entente (AID) funds, reportedly for $1 million at an interest rate of 4 percent. A loan agreement between BTD and CNCA should be in place to support this "subloan." It is not. BTD has no written arrangements covering terms, interest rates, repayment schedules, purposes of CNCA's loans or reporting requirements for uses of AID funds. CNCA itself is not authorized by AID as a lending institution under the Entente Fund program. It is reported that CNCA has suffered from inept management and is in a precarious financial condition, as is the BTD. The BTD/CNCA arrangement is irregular and unacceptable as a banking practice. REDSO, and, if necessary, AID auditors, should investigate this issue.

IV. SUMMARY AND CONCLUSIONS

A. AID Loan: $17.5 Million

Tranche I for $7.5 million was authorized and fully disbursed during the three-year period 1973-1975. A loan amendment, Tranche II, was authorized for $10 million. Its status as of September 30, 1981, is recapped below:

Authorized: June 28, 1975
Obligated: March 29, 1976

Amount Committed by Entente Fund Reloans to Development Banks	$ 9.5 M
Amount Uncommitted	.5 M
	$10.0 M
Amount Disbursed	$ 6.6 M
Amount Undisbursed	3.4 M
	$10.0 M

Terminal Disbursement Date: December 31, 1982
Original Date: February 9, 1980
First Extension: February 7, 1981

B. AID Grants: $1.9 Million

This grant is currently financing the salaries of two U.S. advisors, the regional project manager and the management advisor ($181,000 is available for the two advisors). The grant also provides funding for project analysis services, project development, and participant training.

Initial Amount: $350,000 approved April 1974
Current Amount: $1,880,300 includes four increases, the latest in September 1980
Amount Disbursed: $1,515,000 as of September 30, 1981
Amount Undisbursed: $365,000
Terminal Disbursement Date: April 30, 1983

C. Entente Contribution to Project

This is described in Section I-B of this paper. There is no requirement in the AID Loan Agreement for an Entente Fund contribution to the AEP. The Entente Fund should have been required to make a substantial contribution to the program.

As of September 30, 1981, $500,000 of the Tranche II loan (total loan, $10 million) remained uncommitted and $3.4 million remained undisbursed. It is probably impossible to disburse this amount by December 31, 1982, the terminal disbursement date. The large sums accumulating in the Special Accounts, together with the Entente's substantial earnings, should be more than adequate to finance any future follow-on African Enterprise Program, making it difficult to justify new AID money.

Table F-I also summarizes subloan activity under Tranche I and Tranche II.

D. Development Banks

Of the six development banks in the AEP, two (BND in Upper Volta and BTD in Togo) may be insolvent. AID should evaluate the two banks and recommend appropriate action for continuing the AEP in these countries. The World Bank has reallocated its loan resources to the BND in Upper Volta, but continues to finance technical assistance. Four of the six banks are showing excessive subloan delinquencies: CCI, Ivory Coast; BBD, Benin; BTD, Togo; and BND, Upper Volta. In the absence of current or meaningful subloan reports, delinquency ratios, etc. are not known. At a minimum, the delinquency ratios for the four banks are 60 percent, and are probably higher.

One bank in the Ivory Coast, BIDI, has used concessional AID funds to finance only large projects, not the type of SME project that should be financed under the AID/Entente Fund program. BIDI should have financed these projects with other resources. It has done little to promote SME activity and, as a result of the wide interest spread, it has received unjustified profits on concessional AID money. The Ivory Coast Banks (BIDI and CCI) received 46 percent of the $7.5 million Tranche I loan and were leading in the amount disbursed (31 percent) from the $10 million Tranche II loan as of September 30, 1981. An AID loan covenant places a 25 percent limitation on the use of funds for each country. REDSO will most likely be under pressure to give even more Tranche II money to the Ivory Coast.

Table F-1. Data Concerning Subloans Made Under the Entente Fund African Enterprise Program
as of September 30, 1981
(millions-U.S.$ and FCFA)

Country	Development Bank	Tranche I: $7.5 Million[1] (fully disbursed) — Disbursements Under Entente Loan Agreements With Banks[3] U.S.$	FCFA	%	Subloans No.	%	Tranche II: $10 Million[2] ($6.6 million disbursed) — Entente Loan Agreements With Banks — Signed Agreements U.S.$	Disbursements[3] U.S.$	FCFA	%	Subloans No.	%
Ivory Coast	CCI	1.0	238.5		144		1.0	1.0	240.2		26	
	BIDI	2.5	544.9		16		1.0	1.0	212.0		14	
		3.5	783.4	46	160	52.0			452.2	31	40	15.0
Benin	BBD	1.0	229.4	13	44	14.5	2.0	1.1	255.3	18	104	39.0
Togo	BTD	1.0	240.9	14	32	10.5	2.5	2.1	426.9	29	87	32.5
Niger	BDRN	1.0	226.1	13	51	17.0	2.0	1.3	290.7	20	32	12.0
Upper Volta	BND-HV	1.0	238.7	14	18	6.0	1.0	0.1	31.3	2	4	1.5
Total		7.5	1,718.5	100	305	100.0	9.5	6.6	1,456.4	100	267	100.0
		Uncommitted (no signed agreement)			0.5							
		Undisbursed					3.4					
					10.0		10.0					

[1]AID Loan Agreement dated: March 9, 1973
Loan fully committed and disbursed over three-year period 1973-1975

[2]AID Loan Agreement dated: March 29, 1976
Terminal Disbursement Date: December 31, 1982

[3]FCFA disbursements effected at various rates of exchange to the dollar

Note: On October 9, 1980, AID disbursed the CFA equivalent of $1.4 million to an interest-earning (reported 6.5%) bank account of the Entente Fund. The disbursement was to cover development bank needs for a 90-day period, pursuant to the Entente disbursement request. At the time of the Impact Evaluation, September to October 1981, 12 months after the disbursement, the equivalent of about $800,000 remained in the account. The Entente reports the equivalent of $6.6 million were disbursed to the development banks as of September 30, 1981. AID/Washington reports that $7.4 million were disbursed to the Entente as of this date, the difference being the $800,000 in the Entente bank account.

To summarize, of the six banks in the program, only two would qualify for continued loan assistance today. These are the BDRN in Niger and the BBD in Benin, although the latter's delinquencies are excessive. Even so, BBD has competent management and its long-term potential is good. With the help of World Bank (IDA) technical assistance, the bank is expected to correct over the long term its accounting weaknesses; however, BDRN and BBD have large, undisbursed loan balances to work off, which are subject to the Code 941 requirement. The requirement poses a problem to the banks and is a serious constraint to disbursement. Thus, the two qualified banks cannot move the AID funds that they have at this time.

The four banks that may not qualify for continued AID loan assistance are the BND in Upper Volta and the BTD in Togo, both of which may be insolvent, and CCI and BIDI in the Ivory Coast. In 1981, CCI suffered a loss of 494 million FCFA ($1.5 million at 280 FCFA = U.S.$1.00), or about 20 percent of its net worth. It is shifting away from SMEs to safer short-term commercial loans. BIDI is solid, but finances only large projects, not the small- and medium-size African enterprises that would justify concessional AID financing. Continued BIDI participation should, therefore, be questioned.

An effective AEP development bank system in all five Entente Fund countries is no longer in place. There is little likelihood that the Tranche II loan can be fully disbursed by December 31, 1982, the terminal disbursement date.

Other factors influence loan disbursements. The World Bank (IDA) has extended loans to BDRN (Niger), BBD (Benin), and CCI (Ivory Coast) for financing SMEs. In view of these resources, AID should determine whether a demand still exists for its funds. The BDRN (Niger) has about $12 million to draw-down under its IDA loan, which is just getting underway, and the BBD (Benin) has about $6 million to draw-down under its IDA loan. IDA extended a loan to CCI in the Ivory Coast (about $9 million outstanding), which under the circumstances is sufficient to take care of its SME activity without the need for additional AID resources. IDA recently reallocated its SME loan to BND in Upper Volta (about $3 million was outstanding) due to the unsatisfactory performance of this bank. IDA has no SME program in Togo.

All of the banks (except BIDI) and the banks' SME clients have a long-term need for technical assistance. The reflows to the Special Accounts should be used to finance this need, provided that it is programmed through a well-prepared, long range technical assistance plan, carefully coordinated with the ongoing IDA technical assistance programs. To illustrate the importance of this coordination, IDA currently is carrying out a $2.1 million technical assistance program to BND in Upper

Volta, a $1.5 million program to BDRN in Niger, a $1.4 million program to BBD in Benin, and a $600,000 program to CCI in the Ivory Coast.

E. Purposes of Project

According to the Tranche II Project Paper, purposes of the project were (1) to strengthen the long-term capacity of the national development banks, (2) to strengthen the capacity of Promotion Centers and Guarantee Funds, and (3) to promote commercial bank lending to African entrepreneurs.

These purposes have not been achieved. Only two of the six banks qualify today for continued loan assistance. The Promotion Centers and Guarantee Funds are ineffective or non-existent in four of the five Entente Fund countries.

The commercial banks do very minimal long-term lending to any projects, especially SME projects. The risks are simply too great. Commercial banks are not set up to make long-term loans, but restrict their lending activities to safer, short-term commercial transactions. Thus, only a very modest number of SME projects are taken on by the commercial banks, and these are carefully scrutinized and fully secured. The reduction in the rediscounting of SME paper by the Central Bank, the absence of government Guarantee Funds, and ineffective Promotion Centers are severe setbacks for SME promotion, causing a virtual standstill of SME financing by the commercial banks. The assumption in the Project Paper that the Entente Fund-AEP would stimulate commercial bank lending to African entrepreneurs is not taking place. It was an overly optimistic projection and was not based on a full understanding of the forces involved.

F. Future Prospects for SME Activity

SME development throughout the region (with the possible exception of Niger) is in trouble today. The banks are finding SMEs excessively risky; some are shifting to shorter term, safer loans; delinquencies are high and rising; and banks lack technical competence to analyze loan requests, maintain adequate books and records, enforce collections, account for uses of AID funds, or prepare status reports. The costs of administering an SME portfolio are prohibitive, and SME infrastructure, including government-supported promotion centers and guarantee funds, are ineffective or nonexistent (except in Niger). The Central Bank has reduced sharply the availability of funds for rediscounting SME paper, while the economic recession contributes to poor SME performance.

G. Development Bank Resources for SME Lending

The $17.5 million in SME resources from the AID/Entente Fund program is not a significant amount of the overall resources available for SME lending in the Entente Fund countries. To illustrate, in the Ivory Coast total SME loans outstanding as of December 31, 1980 amounted to 21 billion FCFA. Total AID/Entente Fund disbursements amounted to only 1.3 billion FCFA. These figures are not comparable, but they illustrate the minor role played by AID financing. In Niger, the BDRN financed a total of 1,900 small/medium subloans totalling 8 billion FCFA. Of this, the Entente program financed only 73 subloans for 517 million FCFA, a rather minor participation.

All the banks have a large demand for loan resources to finance their overall portfolios. The concessional AID resources are immensely attractive to the banks. However, in their effort to get the low-interest AID money, the banks initially probably overlooked the difficulties in managing large SME portfolios. Now many banks with these large portfolios are finding them too burdensome to handle, although well-structured technical assistance inputs would ease the burden. In short, the banks are under pressure to utilize their SME resources and, as a result, the resources are not being utilized or administered as well as they should be and delinquencies are rising, some to excessively high levels. Initial AID financing to the Entente Fund for the AEP was the first major donor effort giving African entrepreneurs access to credit and served as a catalyst to bring in other donor resources.

H. Cost-Effectiveness

As of September 30, 1981, 572 subloans had been financed with AID funds under the AEP. This is not a large number of loans considering that the AEP has been operating for eight years through six banks. As an illustration, if the number of subloans were averaged evenly among the banks over the eight years, about 72 subloans were approved each year by the banks, with each bank approving only 12 loans a year.

Also, the technical assistance expenditures (approximately $4 million, an estimated $2 million financed by AID and $2 million by the Entente Fund) appear exceedingly costly when compared to the program's poor performance--including shaky development banks, excessive delinquencies, struggling entrepreneurs, ineffective Promotion Centers, and no Guarantee Funds. Technical assistance expenditures amount to about $7,000 per subloan, an inordinate amount for an average subloan of about

$31,000 and ineffective considering that a minimum of 50 percent of all subloans are delinquent. This suggests two things: (1) no attempt was made to place the technical assistance program on a cost-effective basis in the first place; (2) technical assistance was improperly designed, overly concentrated in Abidjan, not structured to help the development banks and their SME clients at the country level, and did not follow a well-conceived, well-financed, long-range plan. (A condition precedent required such a plan.)

I. Project Management

The AEP has not been well managed. Important AID conditions and requirements were not enforced or followed, and the control of the program drifted away from AID to the Entente Fund. The frequent changeovers of the U.S. advisors to the Entente Fund, as well as of REDSO officials, have given the project an ineffective, leaderless image. At the time of the impact evaluation field work, REDSO was not up-to-date about the program's status. The AEP has not been institutionalized by the Entente Fund into a permanent revolving loan fund supported by professional African managers and a well-defined technical assistance plan. The AEP would be more effective if it were structured through a banking institution. This may be difficult now, but consideration should be given to restructuring the existing AEP into a disciplined banking environment.

J. Technical Assistance

Technical assistance to the development banks and African enterprises today is more important than loan assistance. A major technical assistance plan was a condition precedent to disbursement. The plan was accepted but never implemented. This dealt a crippling blow to the AEP. It is important now to develop a comprehensive plan, utilizing reflows to the Special Accounts. These reflows are adequate to finance a plan without new AID funding.

K. Special Accounts

Section 5.02 of the Loan Agreement requires that all repayments (reflows) of Entente Fund loans to the development banks "will be deposited in one or more Special Accounts in a reputable bank or banks" (see Annex I). Funds are rapidly accumulating in the Special Accounts. The wording of Section 5.02 is not clear and does not specifically provide for the relending of the excess reflows to the development bank, thereby "institutionalizing" a permanent, revolving credit system. The present wording states that excess reflows will be used for "general purposes in support of African enterprises." The situation now developing is that excess reflows are remaining in the Special Accounts and could end up as "profits" to the Entente Fund (see Annex II) unless the wording of Section 5.02 is modified to include "a revolving loan fund" and/or procedures are established and agreed to by AID and the Entente Fund for utilizing all excess reflows. This is a major issue and should receive the highest priority.

V. RECOMMENDATIONS

1. An AID audit of the African Enterprises Program ($19.4 million) should be undertaken. (At the same time, AID should undertake an audit of the Rural Development Program [$27.5 million], AID's other major ongoing program with the Entente Fund.)

2. The Entente Fund should be requested to submit a current, audited balance sheet and profit and loss statement.

3. Pursuant to Section 5.02, Special Accounts, of the Loan Agreement, the Entente Fund should be requested to submit a report on all reflows received from the development banks, showing the actual uses being made of these funds and "income derived from such funds." The Entente Fund should also be requested to report on whether the Special Accounts are being maintained "free and clear of all liens, charges and encumbrances" pursuant to the language of this section.

4. The Entente Fund should be requested to submit to AID comprehensive, up-to-date financial projections, prepared by a U.S. certified public accounting firm, to show the accumulation of reflows (principal and interest), on an annual basis, to the Special Accounts over the 40-year life of the AID loan. The projections should show the annual uses of the reflows by the three categories stated in Section 5.02: (1) debt servicing of the AID Loan, (2) reasonable administrative and overhead costs, and (3) general purposes in support of African enterprises.

   The projections should be based on a scope of work (assumptions) acceptable to AID and on the actual repayment schedules of the Entente Fund Reloan Agreements with the development banks. Financial projections are essential for future planning purposes, to determine the magnitude of reflows to the Special Accounts and the amounts projected (excess funds) for "general purposes in support of African Enterprises." The financial projections would enable AID to focus on the magnitude of Entente Fund resources available to support continued loan and technical assistance to African enterprises and to determine whether new AID money, including what remains in the undisbursed balance of the existing AID loan, would be required.

5. AID should not extend the terminal disbursement date of the loan, which is December 31, 1982. AID should undertake an in-depth assessment of the AEP, to determine the appropriate course of action to take. The evaluation would focus on (a) the performance of the AID-financed Entente Fund program to date; (b) the risk and difficulties to AID in continuing to finance the AEP; (c) the need, if any, for continued AID financing, including the unused loan balance; (d) the availability of World Bank (IDA) loans for financing SMEs; (e) Entente Fund resources, including reflows available to continue the AEP; (f) the issue of recycling the reflows back to the AEP for loan and technical assistance; and (g) the feasibility of waiving the Code 941 requirement, a constraint to disbursements.

6. If the findings of the AID audit (Recommendation 1) are favorable, if AID's assessment determines that the AEP should be continued, and if the responses of the Entente Fund to Recommendations 2, 3, and 4 are satisfactory to AID, together with the assessment (Recommendation 5), then AID should enter into discussions with the Entente Fund for a restructuring of the AEP.

7. If the findings of the AID audit (Recommendation 1) are not satisfactory and/or the Entente Fund responses to Recommendations 2, 3, and 4 are unsatisfactory, and/or the AID assessment (Recommendation 5) is not favorable to continuing the AEP, AID should consider calling in the loan and de-obligating the undisbursed balance.

8. With or without continued AID financing (including extending the AID loan), the basis for a restructured AEP calls for a modification of Section 5.02 (Special Accounts) of the Loan Agreement, as suggested below:

   -- delete: "general purposes in support of African Enterprises in the Entente countries."

-- insert: "establishing a revolving loan fund for relending to the development banks and a technical assistance program for the banks and entrepreneurs supporting the relending efforts."

9. Precise management responsibilities and implementation procedures should be developed that are satisfactory to AID for the reflow-funded revolving loan fund and technical assistance program. Two options are suggested. Externally, the Entente Fund should develop arrangements, satisfactory to AID, for turning over to a regional bank (APDB or BOAD) the administration of the reflows for the revolving loan fund and the technical assistance program, until the AID loan is repaid in full. Internally, the Entente Fund should develop its own procedures, satisfactory to AID, for utilizing reflows for the revolving loan fund and the technical program, until the AID loan is repaid in full.

10. If the Entente Fund responses to Recommendations 8 and 9 are unsatisfactory, AID should call in the loan.

11. If the Entente Fund agrees to a modification of Section 5.02 (Recommendation 8) and/or implementation procedures relating thereto (Recommendation 9), then the restructuring of the AEP should, among other things, focus on the following aspects.

    -- Revised subloan criteria. The subloan criteria should be tightened, spelling out the definition of small- and medium-size enterprises; placing more emphasis on selective, higher quality loans and economic returns; and concentrating on specific sectors in each country (such as transport, bakeries, food processors), commercial preferences, and capabilities.

    Tightened criteria would be very difficult for the Entente Fund to manage in view of its limited, inexperienced staff, especially if AID withdraws from the AEP. Thus, from the standpoint of good management and control, it would be preferable to have the revolving loan fund and the technical assistance program administered by a large, technical staff of a regional bank.

    -- Technical assistance program. The Entente Fund and AID should develop a long-range program, carefully worked out and coordinated with the development banks, Promotion Centers, Central Bank, and other SME donors such as the World Bank and the

African Development Bank. The program should focus on providing assistance to the banks and enterprises at the country level. Bank experts should be hired to work within the banks and should focus primarily on the Entente Fund reloans and the subloans financed thereunder, tracing the Entente Fund money; supervising the revolving funds; setting up books, records, and a reporting system; and providing assistance to the enterprises along the way until their loans are repaid. The experts would be familiar with the development banks' overall operations, recommending to the Entente Fund needs for prompt technical assistance in any problem areas that develop.

AID's ongoing Technical Assistance Grant, financing two U.S. advisors, terminates on April 30, 1983. It should not be extended. The advisors are financed by AID but report to the Entente Fund. They cannot always make decisions in AID's interest. AID must have a voice in the hiring and firing of advisors. To date, this has rested solely with the Entente Fund, and the program has suffered.

A new program must be designed to look carefully at past problems so that advisors can function freely and professionally. They must have recourse to AID, and AID must have the final decision on their hiring and firing. If not, the technical assistance program, as experience to date has shown, will simply not work, and neither will the AEP.

12. If the Entente Fund response to Recommendation 11 is satisfactory, AID might consider extending the AID Loan Agreement for a reasonable period of time, provided that (a) the extension is supported by an inventory of ready-to-go projects, (b) the revised subloan criteria have been discussed with and agreed to by the Entente Fund and other institutions in the AEP, and (c) the proposed technical assistance program is implemented. If the Entente Fund response to Recommendation 11 is not satisfactory, AID should consider calling in the loan.

13. Attention should also focus on the terms of the Entente Fund Reloan Agreements. Consideration should be given to increasing the five-year grace period, perhaps to ten years. This would permit the development banks to rollover the money many times rather than repay the funds at an earlier date to the Entente

ANNEX I

SECTION 5.02. Special Accounts. Until the Loan is repaid, Borrower agrees that all funds received from the Banks as a result of obligations incurred pursuant to the Reloan Agreements and income derived from such funds will be deposited in one or more special accounts ("Special Account or Accounts") in a reputable bank or banks of international standing. Borrower agrees to use funds in the Special Account(s) and income derived from such funds only for debt servicing of the Loan, for reasonable administrative and overhead costs and for general purposes in support of African enterprises in the member states. Without limiting the generality of Section 7.09, Borrower agrees to forward to AID such reports with respect to the Special Account(s) as AID may request. In addition, until the Loan is repaid, Borrower agrees to (a) maintain the Special Account(s) free and clear of all liens, charges, and encumbrances and (b) to the extent permissable by the law of the domicile of the Special Account or Account(s) create a floating lien or security interest on the Special Account(s) in favor of AID making AID a preferred Creditor vis-a-vis such account over other present or future creditors of Borrower including the member states. It is understood that the enforcement by AID of any rights under the lien shall not relieve the obligation of the parties to repay AID in U.S. Dollars.

ANNEX II

ENTENTE FUND REPORT

DISCUSSION

This table shows the situation, as of June 30, 1981, of the African Enterprises Loan accounts.

The so called "special account" or "reflow account" consists of lines 2, 3 and 4. These lines show the cumulative "profit" for the Entente Fund resulting from loan operations. Line 1 shows outstanding AID advances, i.e., money held by the Entente Fund pending disbursement to subborrowers.

The table shows a reconciliation between actual bank balances held on June 30, 1981 and their origin. It also shows the division of each loan's assets between current accounts and term accounts.[1] In this regard it is shown that the EA I loan, which is entirely disbursed, has most of its assets in high-earning term accounts. On the other hand, most of EA II assets consists of a large undisbursed AID advance, which by definition must be deposited in a current account where it is immediately accessible.

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[1]Current accounts are at the BIAO-Abidjan and the BCEAO-Abidjan. Term accounts are at the SGB-Paris and Citibank-Bahrain.

African Enterprises Loan Account Balances, June 30, 1981
(from Entente document)

Item	Tranche I	Tranche II	Total	
Outstanding AID Advances[1]		191,014,918	191,014,918	
Net Cumulative Payments[2] (principal and interest)	202,454,070	11,633,331	214,087,401	
Net Cumulative Interest on Bank Deposits[3]	101,268,757	60,931,939	162,200,696	$1,460,275.41 Net Profit[5]
Administrative Costs[4]	- 12,030,771	- 125,862	- 12,156,633	
	291,692,056	263,454,326	555,146,382	
a. Current Accounts	(267,501,535)	(72,483,876)		
b. Term Accounts	(24,190,521)	(190,970,450)		

BIAO--ABIDJAN :		215,136,948
BCEAO--ABIDJAN :		24,023
	a.	215,160,971
SGB--PARIS :		166,452,210
CITIBANK--BAHRAIN:		173,533,201
	b.	339,985,411
		==========
		555,146,382

[1] Undisbursed AID advances held by the Entente Fund.
[2] Cumulative excess of payments received by the Entente Fund from its borrowers over payments made by the Entente Fund to AID.
[3] Cumulative interest earned on bank deposits, less bank charges.
[4] Cumulative expenses paid from loan account, consisting mostly of salary payments to Mr. Robert Minges.
[5] This figure is called "profit" in the Entente accounting, but it really is a deposit balance, principal and interest, rather than profit.

APPENDIX G

DATA ON SUBBORROWERS AND LOANS

(as of September 30, 1981)

Table G-1. Number Of Subborrowers And Loans[1]

Country and Bank	Number of Subborrowers			Number of Loans		
	Tranche I	Tranche II	Total	Tranche I	Tranche II	Total
Ivory Coast						
CCI	144	26	170	144	26	170
BIDI	15	14	29	16	14	30
Benin						
BBD	41	103	144	44	104	148
Togo						
BTD	27	76	103	32	87	119
Upper Volta						
BNDHV	18	3	21	18	4	22
Niger						
BDRN	48	32	80	51	32	83
Total	293	254	547	305	267	572

[1] There are more loans than subborrowers because some borrowers have received more than one loan.

Note: The evaluation team has made every effort to keep the subborrowers loan data consistent throughout this report. However, this has been difficult for several reasons: some entrepreneurs have received several subloans; banks sometimes report multiple subloans to the same borrower as one loan; even within the same bank, reporting may not be consistent; data contained in bank files sometimes differ from that in Entente Fund files; etc. Nevertheless, occasional inconsistencies in data that may appear in this report are minor, and in no way affect the discussions and conclusions.

Table G-2. Distribution Of Loans By Economic Sector
(in millions of FCFA)

Country and Bank	Agriculture	Industry	Commerce	Transportation	Tourism	Crafts
<u>Ivory Coast</u>						
CCI	23.7	99.7	176.6	87.7	3.7	87.3
BIDI	30.0	509.6	125.0	92.3	0	0
<u>Benin</u>						
BBD	52.8	93.6	265.4	3.6	0	69.3
<u>Togo</u>						
BTD	113.0	163.7	255.5	108.1	0	27.5
<u>Niger</u>						
BDRN	44.8	184.6	101.4	34.3	40.0	111.7
<u>Upper Volta</u>						
BNDHV	18.8	100.3	142.6	0	0	8.3
<u>Total</u>	283.1 (8.9%)	1,151.5 (36.3%)	1,066.5 (33.5%)	326.0 (10.3%)	43.7 (1.4%)	304.1 (9.6%)

Table G-3. Division of Loans Between Fixed Assets and Working Capital[1]
(in millions of FCFA)

Country and Bank	Fixed Assets	Working Capital	Total
Ivory Coast			
CCI 392.8	85.9	478.7	
BIDI	756.9	0	756.9
Benin			
BBD	172.2	312.5	484.7
Togo			
BTD	403.4	264.4	667.8
Niger			
BDRN	462.2	54.6	516.8
Upper Volta			
BNDHV	79.6	190.4	270.0
Total	2,267.1 (71.4%)	907.8 (28.6%)	3,174.9 (100%)

[1]These data are compiled from information sheets in the loan files in which fixed assets indicate the amount invested in materials and equipment, and working capital the amount used for operating funds.

Table G-4. Number Of Subborrowers By Sex

Country and Bank	Male	Female	Number of Companies	Total
Ivory Coast				
CCI	119	44	7	170
BIDI	8	2	19	29
Benin				
BBD	79	52	13	144
Togo				
BTD	51	25	27	103
Niger				
BDRN	64	3	13	80
Upper Volta				
BNDHV	16	0	5	21
Total	337 (62%)	126 (23%)	84 (15%)	547 (100%)

APPENDIX H

OBSERVATIONS ON THE PROGRAM IN BENIN AND TOGO

by

Jacques Merlo

OBSERVATIONS ON THE PROGRAM IN BENIN AND TOGO

My principal observations relating to practices which hamper the efficiency of loans granted by AID/Entente through the African Enterprises Program in Benin and Togo are as follows:

1. Subloans

Loans under the program are often too small, failing to allow an adequate level of investment, and are valuable primarily as stop-gap, emergency funds. As such, they are highly risky; moreover, they are often made through friendship connections.

The effective rates of interest vary greatly; overall, the rates are generally quite high for a development program.

A proper study of loan applications by the banks should be able to reveal which borrowers have the capacity to receive funds through commercial banks. Such borrowers should not benefit from preferential interest rates.

2. Current Enterprise Status (based on sample)

Aside from a small group (3 of 18, or approximately 16 percent of the Benin/Togo sample), most borrowers that I met are able to repay their loans. However, borrowers may consciously delay payments because of very temporary financial difficulties.

Of the enterprises which I sampled, only one has gone bankrupt through mismanagement. Two have been ruined through unpredictable external events (fire in one case; disappearance of fish from the fishing area in another).

Extremely high risks from theft, vandalism, or gratuitous violence against private initiatives exist in Togo.

3. Promotion Centers

Promotion centers in each country are public institutions that provide training and assistance to local entrepreneurs. The promotion centers in Benin and Togo are, for all practical purposes, useless and have failed in their three assigned tasks (for which no financial motivation existed to start with), namely:

a. Design projects ready to be implemented by investors/promoters
b. Technical assistance to promoters
c. Training

The question is not to determine whether the centers should be eliminated, but rather how their functions should be carried out and under what type of institutional framework.

There is currently an overlap of the second task between the promotion centers and the technical services of the development banks.

Would it not be more valid to assign the technical assistance task to a "Promotion Division" of the development bank, which has an interest in the subborrower, efficient functioning insofar as this allows repayment of the loan with minimum risk?

4. Training/Information

The training needs are enormous. Apart from temporary, one-shot assistance through a management training program financed partly by UNIDO, nothing useful exists at this point, and no significant result of previous training was in evidence.

Information on the Entente Fund program and on loans is passed by word-of-mouth among privileged clients. This information is often incomplete or inaccurate.

Many borrowers are ignorant of the conditions of their loan, the length of the repayment period, or even of what their monthly or quarterly payments represent.

For many individuals, the bank remains a forbidding temple.

5. Technical Assistance

Technical assistance is needed at all levels for both banks and borrowers, and is crucial at the lower levels of the banks. It should help the establishment of a rationally organized workflow, file management, and information, and should prevent, as much as possible, subterfuge and laxity.

Technical assistance to borrowers requires a trained technician to spend approximately one to two hours a month (excluding travel time) for on-site visits and discussions with the entrepreneur, to provide immediately useful practical advice. Such visits would greatly reduce the borrower's risk of making dangerous mistakes; it, therefore, would reduce the bank's risk and increase the efficiency of our loans in the countries.

Such technical assistance would also reinforce the credibility of the bank's "Promotion Division."

APPENDIX I

<u>DIFFICULTIES INHERENT TO SMALL ENTERPRISES LOAN PROGRAMS</u>

by

Tom Timberg

DIFFICULTIES INHERENT TO SMALL ENTERPRISES LOAN PROGRAMS

Two important problems with many small enterprises loan programs in West Africa seem to be the lack of incentives for bank officers to promote them, and the existing bank procedures. In the course of my discussions, three proposals were made, which are not mutually exclusive, that might help alleviate these problems:

1. To somehow involve small-scale enterprises (SSE) and artisan groups in the loan process, and possibly even encourage them to organize and police group credit guarantees. The Chambers of Commerce pointed out that their own constituent associations already exist as organizations that could be easily adapted to these purposes. At least the organized trade groups should be involved in some sort of advisory and monitoring capacity.

2. The focus on new enterprises and project investment finance may be inappropriate when difficult general business conditions see many existing enterprises sinking, and adequate working capital arrangements do not exist. What may be needed is a source of working capital for running enterprises--for many of the smallest, daily or weekly repayment is feasible (as in the successful program of the Credito Popular in El Salvador)--24- or 12-hour trading loans, for example. The provision of working capital should be combined with management assistance. The working capital program would be easier to police, and because of fungibility would have the same effect as a fixed capital loan. Enterprises could borrow on the strength of their continuing performance. In Upper Volta for example, it is survival and expansion of existing companies which are the problems, rather than simply new enterprise formation (echoes of Sayre Schatz in Nigerian Capitalism).

3. Any small enterprises credit program should involve a separate unit, in a bank or elsewhere, with its own cadre of employees and procedures oriented to small enterprises. The employees should have an incentive structure keyed to the amount of successful lending they do.

A critical issue for the African Enterprises Program is the distinction between modern-sector small enterprises and traditional-sector small enterprises. It is clearly the former that we are largely funding in Upper Volta and Niger.

These modern-sector small enterprises use technologies which are not necessarily less capital intensive than large-scale industry, sometimes more so, but are on a relatively small scale. They are typically found in industries without strong economies of scale, and where they have advantages as small units, with close managerial supervision intimately tied to local markets. Tailor shops, restaurants and bars, dry cleaners, bakeries, etc. are all of this sort. In retailing, they are modern types of shops selling largely new, European-style merchandise from fixed locations. In services, they provide repair for modern equipment such as automobiles.

The boundaries are not sharp here--bicycle repair, albeit connected with a modern good, because it is relatively simple and deals with vehicles used largely by the poor and unsophisticated, is usually not in this sector. There is almost an imperceptible point at which bars and food preparation establishments leave this sector. In other environments, but apparently rarely in West Africa, these modern-sector units serve as subcontractors and ancillaries to larger scale establishments.

The products are chiefly consumed by the urban middle class, and not surprisingly most of the entrepreneurs come from this class.

These facts are not necessarily an indictment. The creation of a modern sector of the economy and a middle class to inhabit it is both inevitable and necessary to the continued survival of the countries with which we are concerned. The decline of food shortages and the increase in life expectancy and literacy are contingent on this sector's existence. Trucking and repair services enable food as well as luxury goods to be transported; cement blocks can be used to construct schools as well as middle-class housing. In many cases, the small modern enterprises may substitute for imports or even provide some export or tourist industry earnings.

These modern small enterprises are typically in the organized sector--registered, taxed (more or less), and counted--though they often evade the full weight of tax and labor welfare regulations. They may receive somewhat subsidized credit, though transactions costs typically make the credit received more expensive than for large enterprises. And in the countries we surveyed, they get no special preference in government purchases or subsidized raw materials--except through the effect of unduly cheap food in holding down wages.

Large-scale industries do get important tax benefits, but are subject to compensating labor welfare burdens, but these are usually not directly competitive with these modern-sector small enterprises.

The traditional or artisan sector--food processors (millers, brewers, weavers, etc.)--are usually more directly competitive with large-scale industries, for which their products are imperfect substitutes. The products continue to have some advantages in price over modern alternatives. Competition is even more the case when technology begins to change; e.g., traditional strip weavers in Upper Volta are not directly competitive with the Voltex mill, whereas a decentralized power-loom sector would be. In the Ivory Coast, the large coffee mills have been driving out the smaller ones.

Artisanal enterprises and their retailing and servicing equivalents are typically small, use labor-intensive technology, and produce goods for mass markets. Because of their size, wholesalers who deal with this sector are typically not wholly of it. Artisanal enterprises are almost all in the unorganized sector--untaxed, unregistered, and uncounted. Correspondingly, they are rarely the objects of effective government programs. They are often so technologically behind that their survival is problematic--handspinning and primitive pottery seem to fall in this category.

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